AB INTER RAO LIETUVA

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018, PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

INTER RAO LIETUVA

GPW

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Inter RAO Lietuva AB

Report on the Audit of the Company's and Group's Financial Statements

Opinion

We have audited the accompanying separate financial statements of AB INTER RAO Lietuva, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB INTER RAO Lietuva and its subsidiaries (hereinafter the Group), which comprise the statements of financial position as of 31 December 2018, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying Company's and consolidated financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2018 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company/Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the requirements of the Law on Audit of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matters	How the matter was addressed in the audit
Impairment assessment of goodwill and licenses Goodwill and licenses are accounted at cost less accumulated impairment (goodwill) and less accumulated amortization and impairment (licenses) and amount to EUR 3,129 thousand in the statement of financial position of the Group as of 31 December 2018 (Note 4). The Group performed an impairment test of these assets based on the value in use estimation as disclosed in Notes 2 and 4 to the accompanying financial statements and as a result no impairment was identified. The annual impairment test was significant to our audit as it involves management's judgment in making the assumptions related to cash flows forecasts, as well as the discount rate, used in the value in use estimations as disclosed in Note 4. Furthermore, the goodwill and licenses represent approximately 5% of the total assets of the Group as of 31 December 2018.	Our audit procedures included, among others, the following: - We have obtained understanding of the process (including assumptions and methods) how management perform their assessment of goodwill and licences impairment; - We considered significant assumptions used by the management in the estimation of cash flows forecasts, compared cash flows comprising components to actual and planned levels; - We involved valuation specialists to assist us with the consideration of the discount rate and calculation model used by the management in the impairment test; - We tested the sensitivity in the available headroom of the cash generating unit (CGU) considering if a reasonably expected change in the assumptions (as disclosed in Note 4) could cause the carrying amount to exceed its recoverable amount and also assessed the historical accuracy of management's estimates. - Finally, we considered the adequacy of the Group's disclosures included in Note 4 about the assumptions used in the impairment test and the outcome of the test, including sensitivity disclosures.
Impairment assessment of investment to Sp. z o.o. IRL Polska As disclosed in Note 1 to the financial statements, the Company has an investment into subsidiary Sp. z o.o. IRL Polska with the acquisition cost value of EUR 2,392 thousand and accumulated impairment recognised as a result of impairment test performed by the management of EUR 673 thousand as of 31 December 2018. Management's assessment of the recoverable amount of investment in Sp. z o.o. IRL Polska was significant to our audit as it requires estimation and judgement around assumptions used as disclosed in Note 1. Changes to assumptions could lead to material changes in the estimated recoverable amount, impacting potential impairment charges, thus this audit area is considered a key audit risk.	Our audit procedures included, among others, the following: - We have obtained understanding of the process (including assumptions and approaches) how management perform their assessment to determine the recoverable amount of the investment to Sp. z o.o. IRL Polska; - We considered the "adjusted net assets" approach (i.e. estimation of the amount of the net assets shareholder may expect to recover in case the subsidiary would be closed) used by the management in the impairment assessment. - We discussed with the management the subsidiary's performance and its outlook. We considered the subsidiary's balance sheet structure for any potential material undisclosed liabilities and values of assets and their recoverability as included in the estimated "adjusted net assets" value by the management. - We compared the carrying value of the Company's investment in subsidiary with its estimated "adjusted net assets" value. - Finally, we considered the adequacy of the Company's disclosures included in Note 1 related to the impairment assessment.

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Other information

Other information consists of the information included in the Company's and Group's Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as indicated below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

We also have to evaluate, if the financial information included in the Consolidated Annual Report corresponds to the financial statements for the same financial year and if the Consolidated Annual Report was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of financial statements, in all material respects:

- The financial information included in the Company's and Group's Annual Report corresponds to the financial information included in the financial statements for the year ended 31 December 2018; and
- The Company's and Group's Annual Report was prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania and the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and/or the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by the shareholder we have been chosen to carry out the audit of Company's and Group's financial statements the first time in 2009. Our appointment to carry out the audit of Company's financial statements and Group's consolidated financial statements in accordance with the decision made by shareholder has been renewed annually and the period of total uninterrupted engagement is 9 years.

Adaptation to the audit report submitted to the audit committee

We confirm that our opinion in the section 'Opinion' is consistent with the additional report which we have submitted to the Company, the Group and the Audit Committee.

Non audit services

We confirm that in light of our knowledge and belief, services provided to the Company and the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of audit, we have not provided any other services except for audit of financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Inga Gudinaitė.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Inga Gudinaitė
Auditor's licence
No. 000366

12 February 2019

(all amounts are in EUR thousand unless otherwise stated)

Statements of financial position

	Notes	Group		Company	
		As at 31 December 2018	**As at 31 December 2017**	**As at 31 December 2018**	**As at 31 December 2017**
ASSETS					
Non-current assets					
Intangible assets					
Goodwill		716	716	-	-
Operating license		2,413	3,619	-	-
Other intangible assets		21	1	-	-
Total intangible assets	4	3,150	4,336	-	-
Property, plant and equipment					
Land		576	612	-	-
Buildings and structures		2,562	2,726	-	-
Office premises		622	698	622	698
Machinery and equipment		14,379	15,297	-	-
Other property, plant and equipment		36	38	16	19
Total property, plant and equipment	5	18,175	19,371	638	717
Investment property	2.7	323	135	323	135
Interest in a joint venture and subsidiaries	1, 6	79	93	10,254	10,442
Other non-current financial assets	7	275	585	32	71
Derivative financial instruments	14	-	24	-	24
Deferred income tax asset	21	-	-	1,034	155
Total non-current assets		**22,002**	**24,544**	**12,281**	**11,544**
Current assets					
Prepayments	7	3,805	303	3,603	125
Accounts receivable					
Trade receivables	8, 26	11,856	14,409	9,798	12,450
Other receivables from subsidiaries and joint venture	26	25	-	2,525	1,485
Contract assets	9, 2.18	1,120	-	-	-
Accrued income and other receivables	9	460	1,567	-	10
Total accounts receivable		13,461	15,976	12,323	13,945
Prepaid income tax		67	47	-	47
Other current financial assets	7	1,270	1,697	207	542
Derivative financial instruments	14	400	675	400	691
Cash and cash equivalents	10	20,737	5,191	19,110	3,026
Total current assets		**39,740**	**23,889**	**35,643**	**18,376**
					-
Total assets		**61,742**	**48,433**	**47,924**	**29,920**

(cont'd on the next page)

The accompanying notes are an integral part of these financial statements.

(all amounts are in EUR thousand unless otherwise stated)

Statements of financial position (cont'd)

	Notes	Group		Company	
		As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
EQUITY AND LIABILITIES					
Equity					
Share capital	1	5,800	5,800	5,800	5,800
Legal reserves	11	982	910	579	579
Cash flow hedge reserve	14	(4,771)	43	(4,813)	42
Currency translation reserve	2.2, 11	(76)	(22)	-	-
Retained earnings		15,524	11,242	11,707	7,198
Total equity		**17,459**	**17,973**	**13,273**	**13,619**
Liabilities					
Non-current liabilities					
Non-current borrowings	12	3,852	7,150	-	-
Financial lease obligations	13	613	654	-	-
Derivative financial instruments	14	14	78	-	16
Deferred income tax liability	21	654	1,322	-	-
Total non-current liabilities		**5,133**	**9,204**	**-**	**16**
Current liabilities					
Current portion of non-current borrowings	12	3,300	3,300	-	-
Other financial debts	12	-	3,795	-	3,795
Current portion of financial lease obligations	13	38	37	-	-
Derivative financial instruments	14	5,769	593	5,664	457
Trade payables	15, 26	25,814	10,299	25,601	9,808
Income tax payable		1,910	21	1,910	-
Advances received		16	73	10	73
Other current liabilities	16	2,303	3,138	1,466	2,152
Total current liabilities		**39,150**	**21,256**	**34,651**	**16,285**
Total equity and liabilities		**61,742**	**48,433**	**47,924**	**29,920**

The accompanying notes are an integral part of these financial statements.

General Manager	Giedrius Balčiūnas		12 February 2019
Chief Accountant	Edita Vagonienė		12 February 2019

(all amounts are in EUR thousand unless otherwise stated)

Statements of comprehensive income

	Notes	Group 2018	Group 2017	Company 2018	Company 2017
Revenue from contracts with customers	3,17, 2.18	288,269	-	240,663	-
Sales	3,17	-	179,378	-	141,787
Cost of sales	18	(265,553)	(161,024)	(220,961)	(128,143)
Gross profit		**22,716**	**18,354**	**19,702**	**13,644**
General and administrative expenses	19	(7,782)	(7,443)	(5,524)	(5,424)
Profit from operations		**14,934**	**10,911**	**14,178**	**8,220**
Income from other activities		3	8	14	15
Finance income	20	409	179	740	171
Finance expenses	20	(584)	(579)	(234)	(63)
Share of result of joint venture	6	(13)	(19)	-	-
Profit before tax		**14,749**	**10,500**	**14,698**	**8,343**
Income tax	21	(3,295)	(1,526)	(3,089)	(1,162)
Net profit		**11,454**	**8,974**	**11,609**	**7,181**
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Net result on cash flow hedges	14	(5,664)	77	(5,712)	(94)
Income tax effect	14	850	(12)	857	14
Effect of currency exchange	2.2, 11	(54)	111	-	-
Total other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		**(4,868)**	**176**	**(4,855)**	**(80)**
Total comprehensive income for the year, net of tax		**6,586**	**9,150**	**6,754**	**7,101**
Basic and diluted earnings per share (EUR)	22	0.57	0.45		

The accompanying notes are an integral part of these financial statements.

General Manager	Giedrius Balčiūnas		12 February 2019
Chief Accountant	Edita Vagonienė		12 February 2019

(all amounts are in EUR thousand unless otherwise stated)

Statements of changes in equity

Group

		Equity attributable to equity holders of the parent					
	Notes	Share capital	Legal reserve	Cash flow hedge reserve	Currency translation reserve	Retained earnings	Total
Balance as at 31 December 2016		**5,800**	**910**	**(22)**	**(133)**	**12,468**	**19,023**
Net profit for the year		-	-	-	-	8,974	8,974
Other comprehensive income, net of tax	14	-	-	65	111	-	176
Total comprehensive income		**-**	**-**	**65**	**111**	**8,974**	**9,150**
Dividends declared	23	-	-	-	-	(10,200)	(10,200)
Balance as at 31 December 2017		**5,800**	**910**	**43**	**(22)**	**11,242**	**17,973**
Net profit for the year		-	-	-	-	11,454	11,454
Other comprehensive income, net of tax	14	-	-	(4,814)	(54)	-	(4,868)
Total comprehensive		**-**	**-**	**(4,814)**	**(54)**	**11,454**	**6,586**
Transfer to reserves	11	-	72	-	-	(72)	-
Dividends declared	23	-	-	-	-	(7,100)	(7,100)
Balance as at 31 December 2018		**5,800**	**982**	**(4,771)**	**(76)**	**15,524**	**17,459**

Company

	Notes	Share capital	Legal reserve	Cash flow hedge reserve	Retained earnings	Total
Balance as at 31 December 2016		**5,800**	**579**	**122**	**10,217**	**16,718**
Net profit for the year		-	-	-	7,181	7,181
Other comprehensive income, net of tax	14	-	-	(80)	-	(80)
Total comprehensive income		**-**	**-**	**(80)**	**7,181**	**7,101**
Dividends declared	23	-	-	-	(10,200)	(10,200)
Balance as at 31 December 2017		**5,800**	**579**	**42**	**7,198**	**13,619**
Net profit for the year		-	-	-	11,609	11,609
Other comprehensive income, net of tax	14	-	-	(4,855)	-	(4,855)
Total comprehensive income		**-**	**-**	**(4,855)**	**11,609**	**6,754**
Dividends declared	23	-	-	-	(7,100)	(7,100)
Balance as at 31 December 2018		**5,800**	**579**	**(4,813)**	**11,707**	**13,273**

The accompanying notes are an integral part of these financial statements.

General Manager	Giedrius Balčiūnas		12 February 2019
Chief Accountant	Edita Vagonienė		12 February 2019

INTER RAO LIETUVA GPW

(all amounts are in EUR thousand unless otherwise stated)

Statements of cash flows

		Group		Company	
	Notes	**2018**	**2017**	**2018**	**2017**
Cash flows from (to) operating activities					
Net profit		11,454	8,974	11,609	7,181
Adjustments for non-cash items:					
Income tax expenses	21	3,295	1,523	3,089	1,159
Depreciation and amortisation	4, 5	2,410	2,458	90	116
Share of net result of joint venture	6	14	18	-	-
Dividend (income)	20	-	-	(350)	-
Interest (income) expenses	20	394	577	45	63
Change in fair value of derivatives not designated as hedging instruments	20	123	452	129	452
Impairment of investment to subsidiary	1	-	-	188	485
Fair value change of investment property	20	(188)	-	(188)	-
Other non-cash items		(34)	453	(18)	14
		17,468	14,455	14,594	9,470
Changes in working capital:					
Decrease (increase) in inventories and prepayments and other receivables from subsidiaries and joint venture		(3,502)	344	(4,518)	1,275
(Increase) decrease in accounts receivable and other current assets		2,559	(1,168)	2,679	(2,197)
(Decrease) increase in trade payables		15,501	(1,934)	15,793	(2,330)
Income tax (paid)		(1,244)	(1,419)	(1,153)	(1,354)
(Decrease) increase in other current liabilities		(914)	(211)	(782)	235
(Increase) decrease in other non-current assets		300	(502)	39	(32)
Net cash flows from operating activities		**30,168**	**9,565**	**26,652**	**5,067**
Cash flows from (to) investing activities					
(Acquisition) of non-current assets		(28)	(17)	(11)	(3)
Dividends received		-	-	350	-
Net cash flows from (to) investing activities		**(28)**	**(17)**	**339**	**(3)**

(cont'd on the next page)

The accompanying notes are an integral part of these financial statements.

(all amounts are in EUR thousand unless otherwise stated)

Statements of cash flows (cont'd)

		Group		Company	
		2018	**2017**	**2018**	**2017**
Cash flows from (to) financing activities					
Dividends (paid)	27	(7,100)	(2,040)	(7,100)	(2,040)
Loans repaid	27	(7,093)	(8,916)	(3,795)	(5,616)
Interest (paid)		(361)	(577)	(12)	(63)
Financial lease (payments)		(40)	(35)	-	-
Net cash flows (to) financing activities		**(14,594)**	**(11,568)**	**(10,907)**	**(7,719)**
Net increase (decrease) in cash and cash equivalents		**15,546**	**(2,020)**	**16,084**	**(2,655)**
Cash and cash equivalents at the beginning of the year		**5,191**	**7,211**	**3,026**	**5,681**
Cash and cash equivalents at the end of the year		**20,737**	**5,191**	**19,110**	**3,026**

The accompanying notes are an integral part of these financial statements.

General Manager	Giedrius Balčiūnas		12 February 2019
Chief Accountant	Edita Vagonienė		12 February 2019

INTER RAO LIETUVA GPW

(all amounts are in EUR thousand unless otherwise stated)

Notes to the financial statements

1 General information

AB INTER RAO Lietuva (hereinafter, "the Company") is a public limited liability company registered in the Republic of Lithuania. Its registered office is located at:

A.Tumėno str. 4, Vilnius
Lithuania

The Company was registered on 21 December 2002. On 22 October 2012 the Company changed its legal status from private limited liability company to public limited liability due to the listing on the Warsaw stock exchange. Since 18 December 2012 the Company's shares are traded on the Warsaw Stock Exchange on the Main trade list.

The Company's core line of business is supply of electricity. The Company holds the following licenses and permissions:

1) A license No. L1-NET-14 of an independent electricity supplier entitling to supply electricity in Lithuania;
2) Unlimited-term permission No. LE-0020 for electricity export to Russia and Belarus;
3) Unlimited-term permission No. LI-0030 for electricity import from Russia and Belarus to Lithuania.

The subsidiary SIA INTER RAO Latvia is included in electricity trading registry in the Republic of Latvia. The subsidiary OU INTER RAO Eesti holds a termless license No. 7.2-3/12-042 of an independent electricity supplier in Estonia. The subsidiary Vydmantai wind park, UAB holds a termless permit to produce electricity No. LG - 0238. The subsidiary Sp z o.o. IRL Polska holds the license for electricity trading which is effective starting 9 January 2014 and valid until 9 January 2024.

As at 31 December 2018 and 2017 the shareholders of the Company were as follows:

	31 December 2018		31 December 2017	
	Number of shares held	**Interest held**	**Number of shares held**	**Interest held**
RAO Nordic Oy, company code 1784937-7, Tammasaarenkatu 1, Helsinki, Finland	10,200,000	51%	10,200,000	51%
UAB Scaent Baltic, company code 300661378, Jogailos str. 9, Vilnius, Lithuania	5,800,000	29%	5,800,000	29%
Other shareholders	4,000,000	20%	4,000,000	20%
Total	20,000,000	100%	20,000,000	100%

As of 31 December 2018 the number of employees of the Group and the Company was 40 and 24, respectively (as of 31 December 2017 – 43 and 25, respectively).

The ultimate parent company is PJSC Inter RAO, company code 2320109650, address Bolshaya Pirogovskaya st. 27, building 2, Moscow 119435, Russian Federation.

As at 31 December 2018 and 2017 the Company's share capital was comprised of 20,000,000 ordinary shares with the par value of EUR 0.29 each. The share capital was fully paid as at 31 December 2018 and 2017. The Company did not hold its own shares in 2018 and 2017. As at 31 December 2018 and 2017, the subsidiaries and the joint venture did not hold any shares of the Company.

The management of the Company approved these financial statements on 12 February 2019. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require a new set of financial statements to be prepared.

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

As at 31 December 2018 the Group consisted of the Company and the following directly controlled subsidiaries and joint venture (hereinafter, the Group):

Company	Company code	Directly and indirectly held effective attributable interest	Investment value (cost less impairment)	Profit (loss) for 2018	Equity As at 31 December 2018	Registration address	Activity
OU INTER RAO Eesti - subsidiary	11879805	100 %	32	(294)	71	Peterburi tee 47, Tallinn, Estonia	Trade of electricity
SIA INTER RAO Latvia - subsidiary	40103268639	100 %	3	(35)	(482)	Gustava Zemgala gatve 76, Riga, Latvia	Trade of electricity
Sp. z o.o. IRL Polska - subsidiary	0000436992	100 %	1,719	(201)	1,652	Twarda 18 00-105, Warsaw, Poland	Trade of electricity
UAB Alproka – joint venture (under liquidation)	125281684	49.99 %	-	(27)	158	Verkių Str. 25C, Vilnius, Lithuania	Operations with real estate
Vydmantai wind park, UAB - subsidiary	302666616	100 %	8,500	571	13,345	A.Tumėno Str. 4, Vilnius, Lithuania	Generation of electricity

As at 31 December 2017 the Group consisted of the Company and the following directly and indirectly controlled subsidiaries and joint venture (hereinafter, the Group):

Company	Company code	Directly and indirectly held effective attributable interest	Investment value (cost less impairment)	Profit (loss) for 2017	Equity As at 31 December 2017	Registration address	Activity
OU INTER RAO Eesti - subsidiary	11879805	100 %	32	(18)	421	Peterburi tee 47, Tallinn, Estonia	Trade of electricity
SIA INTER RAO Latvia - subsidiary	40103268639	100 %	3	90	(444)	Gustava Zemgala gatve 76, Riga, Latvia	Trade of electricity
Sp. z o.o. IRL Polska - subsidiary	0000436992	100 %	1,907	(97)	1,909	Twarda 18 00-105, Warsaw, Poland	Trade of electricity
UAB Alproka – joint venture	125281684	49.99 %	-	(38)	185	Verkių Str. 25C, Vilnius, Lithuania	Operations with real estate
Vydmantai wind park, UAB - subsidiary	302666616	100 %	8,500	1,423	13,026	A.Tumėno Str. 4, Vilnius, Lithuania	Generation of electricity

<u>Changes in 2018</u>

In 2018 the Company estimated the recoverable value of investment into Sp. z o.o. IRL Polska using the "adjusted net assets" approach as the market value of the investment was not available (Note 2.4) and recorded the impairment in amount of EUR 188 thousand under general and administrative expenses (Note 19) in the statement of comprehensive income.

<u>Changes in 2017</u>

In 2017 the Company estimated the recoverable value of investment into Sp. z o.o. IRL Polska using the "adjusted net assets" approach as the market value of the investment was not available (Note 2.4) and recorded the impairment in amount of EUR 485 thousand under general and administrative expenses (Note 19) in the statement of comprehensive income.

2 Accounting policies

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for the year 2018 are as follows:

2.1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (hereinafter the EU).

These financial statements are prepared based on a historical cost basis except for derivative financial instruments and investment property, which are measured at fair value.

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group/Company as of 1 January 2018:

- **IFRS 9 Financial Instruments**
  The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group/Company applied IFRS 9 prospectively, with an initial application date of 1 January 2018, no practical expedients have been used. Adoption of the standard had no impact on the Group's/Company's financial statements (therefore there is no adjustment to the opening balance of retained earnings as of 1 January 2018), except for the presentation of the required additional disclosures described in accounting policy (Notes 2.8, 14). The Group/Company has not restated the comparative information, which continues to be reported under IAS 39.

- **IFRS 15 Revenue from Contracts with Customers**
  IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive additional disclosures, which are presented in these financial statements as relevant. The Group/Company adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018 and as allowed applied it to all contracts, no practical expedients have been used. The adoption of IFRS 15 did not have an impact on the financial statements of the Group/Company (therefore there is no adjustment to the opening balance of retained earnings as of 1 January 2018), except for the presentation of the required additional disclosures described in accounting policy (Notes 2.18, 9, 17). The comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related Interpretations.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
  The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. As disclosed above, adoption of the standards and its clarifications had no impact.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments had no material impact.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

- **IAS 40: Transfers to Investment Property (Amendments)**
  The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Amendments had no material impact.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**
  The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Interpretation had no material impact.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. Management has adopted imporvements and they had no impact.

- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Standards issued but not yet effective

The Group/Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group and the Company's management has made a preliminary evaluation of standard adoption impact and considers it not significant. The Group and the Company has several operating lease contracts for vehicles and office premises, which are considered to be not material and land lease agreements were accounted as financial lease in the statement of financial position based on standards effective until 1 January 2019. As per IFRS 16, leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this amendment.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The Group/Company has not yet evaluated the impact of the implementation of this amendment.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of these amendments.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of these amendments.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this interpretation.

- **IFRS 3: Business Combinations (Amendments)**
  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of these amendments.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of these amendments.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of these improbvements.

- ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements***: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- ***IAS 12 Income Taxes***: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- ***IAS 23 Borrowing Costs***: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

Conceptual Framework in IFRS standards
The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. It's objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

The Group/Company plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

2.2. Measurement and presentation currency

The amounts shown in these financial statements (including comparatives) are presented in the local currency of the Republic of Lithuania, Euro (EUR), rounded to EUR thousand, unless otherwise stated.

The functional currency of the Company and its subsidiaries operating in Lithuania is Euro. The functional currency of subsidiaries in Latvia and Estonia is Euro. The functional currency of the subsidiary in Poland is Zloty. Items included in the financial statements of this subsidiary are translated into the financial statements presentation currency as described below.

Transactions in foreign currencies are initially recorded in the functional currency as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange as at the date of the statement of financial position.

The assets and liabilities of foreign subsidiary are translated into Euro at the reporting date using the rate of exchange as at the reporting date, and its statement of comprehensive income is translated at the weighted average exchange rates for the year. The exchange differences arising on this translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that foreign operation is recognised in profit (loss).

Non-current receivables from or loans granted to foreign subsidiaries that are neither planned nor likely to be settled in the future are considered to be a part of the Company's net investment in the foreign operation. In the Group's consolidated financial statements the exchange differences recognized in the separate financial statements of the subsidiary in relation to these monetary items are reclassified to other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that foreign operation is recognised in profit (loss).

2 Accounting policies (cont'd)

2.3. Principles of consolidation

The consolidated financial statements of the Group include UAB INTER RAO Lietuva and its subsidiaries as well as joint venture. The financial statements of the subsidiaries and joint venture are prepared for the same reporting year, using consistent accounting policies.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control.

Subsidiaries are consolidated from the date from which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies have been eliminated. The equity and net income attributable to non-controlling interests, if any, are shown separately in the statement of financial position and the statement of comprehensive income.

Total comprehensive income of a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

Acquisitions and disposals of non-controlling interest by the Group are accounted as equity transaction: the difference between the carrying value of the net assets acquired from/disposed to the non-controlling interests in the Group's financial statements and the acquisition price/proceeds from disposal is accounted directly in equity.

Interest in a joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the equity method.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

2 Accounting policies (cont'd)

2.3. Principles of consolidation (cont'd)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill impairment is assessed annually. Once recognized, impairment losses are not reversed. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4. Investments (in the Company's separate accounts)

Interest in a joint venture

The Company has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Company accounts for its interest in the joint venture at cost less impairment.

Interests in subsidiaries

Investments in subsidiaries are measured at cost less impairment in the statement of financial position of the Company. Accordingly, the investment is initially recognised at cost, being the fair value of the consideration given subsequently adjusted for any impairment losses. The carrying value of the investment is tested for impairment when events or changes in circumstances indicate that the carrying value may exceed the recoverable amount (higher of the two: fair value less costs to sell and value in use) of the investment. If such indications exist, the Company makes an estimate of the investment's recoverable amount. Where the carrying amount of an investment exceeds its estimated recoverable amount, the investment is written down to its recoverable amount. Impairment loss is recognised in the statement of comprehensive income as general and administrative expense for the period.

2.5. Intangible assets other than goodwill

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably.

The useful lives of all intangible assets are assessed to be finite.

After initial recognition, intangible assets with finite lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their expected useful lives (years). The wind farm operating license validity term is indefinite, although as per management estimate its useful life is associated with the favourable fixed feed-in tariff expiring in 2020.

The amortisation period of the wind farm operating license	9.5 years

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The useful lives, residual values and amortisation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in intangible assets other than goodwill.

(all amounts are in EUR thousand unless otherwise stated)

2 Accounting policies (cont'd)

2.6. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The initial cost of property, plant and equipment and investment property comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment is ready for its intended use, such as repair and maintenance costs, are normally charged to the statement of comprehensive income in the period the costs are incurred.

The Group has leased plots of land on which it operates wind turbines. Those lease arrangements are classified as finance leases of the land. The initial cost of land leased is equal to the present value of future lease payments. For these purposes the applicable lease period was estimated at 20 years and the discount rate applied was 4.8%. Depreciation of leased land is calculated over the minimum lease period, because the lease period represents useful life of leased land.

Depreciation is computed on a straight-line basis over the following estimated useful lives (years):

Land lease	20
Office premises	15
Buildings and structures	8 – 20
Machinery and equipment (wind power plants)	20
Vehicles	5 – 10
Other fittings, fixtures, tools and equipment	3 – 6
Investment property (buildings and structures)	17

The useful lives, residual values and depreciation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

2.7. Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise under general and administrative expenses. Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sell.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group/Company as an owner occupied property becomes an investment property, the Group/Company accounts for such property in accordance with the policy adopted for property, plant and equipment up to the date of change in use. For a transfer from property, plant and equipment to investment property, any differences between fair value of the property at that date and its previous carrying amount are recognised in the revaluation reserve.

As of 31 December 2017 the management has assessed that the carrying value of the investment property (apartments) is equal to its fair value as included in the financial statements. As of 31 December 2018 the Company has estimated fair value of investment property based on expert opinion provided by independent valuators, which was supported by analysis of actual recent comparable real estate selling transactions (level 3 in fair value hierarchy). Fair value measurement impact amounted to income of EUR 188 thousand and is accounted under Finance income caption in the statement of comprehensive income in 2018.

2 Accounting policies (cont'd)

2.8. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

<u>Initial recognition and measurement</u>

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's/Company's business model for managing them. With the exception of trade receivables and contract assets that do not contain a significant financing component, the Group/Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables and contract assets that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's/Company's business model for managing financial assets refers to how the Group/Company manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

A regular way purchases or sales of financial assets are recognised on the trade date, i.e., the date that the Group/Company commits to purchase or sell the asset.

<u>Subsequent measurement</u>

After initial recognition, the Group/Company measures a financial asset at:

a) Amortised cost (debt instruments);
b) Fair value through OCI with recycling of cumulative gains and losses upon derecognition (debt instruments). The Group/Company did not have such items as at 31 December 2018 and 2017;
c) Fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments). The Group/Company did not have such items as at 31 December 2018 and 2017;
d) Fair value through profit or loss (Note 2.13).

<u>Financial assets at amortised cost (debt instruments)</u>

The Group/Company measures financial assets at amortised cost if both of the following conditions are met:

i) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the statement of comprehensive income when the asset is derecognised, modified or impaired.

The Group's/Company's financial assets at amortised cost includes trade, other current and non-current receivables, loans granted and contract assets (if any).

2 Accounting policies (cont'd)

2.8. Financial instruments (cont'd)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments (as defined by IFRS9). Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive income (Note 2.13).

Impairment of financial assets

Following IFRS 9, in common case scenario, the Group/Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group/Company applies a simplified approach in calculating ECLs. Therefore, the Group/Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. For that purpose the Group/Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group/Company considers a financial asset in default when contractual payments are 90 days past due or when indications exist that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

i) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's/Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and finance lease liabilities, as well as derivative financials instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group/Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income (Note 2.13).

2 Accounting policies (cont'd)

2.8. Financial instruments (cont'd)

Loans, borrowings and other payables

After initial recognition, loans, borrowings and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income, when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, i.e. to realise the assets and settle the liabilities simultaneously.

IFRS 9 adoption impact as of 1 January 2018

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Group. Trade receivables and other non-current and current financial assets classified as Loans and receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as Debt instruments at amortised cost beginning 1 January 2018. The Group continued measuring at fair value all financial assets and liabilities previously held at fair value under IAS 39, unless those financial instruments are designated as hedging instruments in hedge relationships as defined by IFRS 9 and IAS 39 respectively. There are no changes in classification and measurement for the Group's/Company's financial liabilities.

As described above, the adoption of IFRS 9 has fundamentally changed accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group/Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. Upon adoption of IFRS 9 the Group and the Company did not recognise additional impairment on the trade receivables and contract assets, as in accordance to the management estimate considering the Group's and the Company's clients creditworthiness and amounts repayment, estimated potential credit losses are immaterial or are not present at all.

At the date of initial application, all of the Group's/Company's existing hedging relationships were eligible to be treated as continuing hedging relationships, no changes were done in respect of risk component identification or subsequent reclassification to profit or loss.

2.9. Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's/Company's statement of financial position) when:

i) The rights to receive cash flows from the asset have expired or
ii) The Group/Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group/Company has transferred substantially all the risks and rewards of the asset, or (b) the Group/Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group/Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group/Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group/Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group/Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group/Company could be required to repay (amount of the guarantee).

2 Accounting policies (cont'd)

2.9. Derecognition of financial instruments (cont'd)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

2.10. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group and the Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.11. Inventories

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost of inventory is determined by the first-in, first-out (FIFO) method. Unrealisable inventory is fully written-off.

2.12. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value. Bank accounts held for the purpose of automated tax payments and reimbursements are considered as cash equivalent as well.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and in current bank accounts as well as deposits in bank with original term equal to or less than 3 months and tax bank accounts.

2.13. Derivative financial instruments

The Group engages in swap contract for interest rate and the Group and the Company engages in forward contract for electricity price risk management purposes. Derivative financial instruments are initially recognized and subsequently carried in the statement of financial position at the fair value. Fair value is derived from quoted market prices (level 1 in fair value hierarchy), or using the discounted cash flow method applying effective interest rate (level 2 in fair value hierarchy). The estimated fair values of these contracts are reported on a gross basis as financial assets for contracts having a positive fair value, and financial liabilities for contracts with a negative fair value.

Gain or loss from changes in the fair value of outstanding forward contracts, swaps and other derivative financial instruments, which are not classified as hedging instruments, are recognized as profit or loss in the statement of comprehensive income as they arise.

2 Accounting policies (cont'd)

2.14. Hedge accounting

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction. The Group and the Company use cash flow hedge.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other comprehensive income and the ineffective portion is recognized in the statement of comprehensive income (profit or loss). The gains or losses on effective cash flow hedges recognized initially in equity are either transferred to the statement of comprehensive income (profit or loss) in the period in which the hedged transaction impacts the statement of comprehensive income (revenue caption for the electricity forward contracts) or included in the initial measurement of the cost of the related asset or liability.

For hedges, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the statement of comprehensive income (profit or loss) for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognized in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the statement of comprehensive income (profit or loss).

In 2018 and 2017 the Group has entered into interest swap agreement with a purpose to hedge against a possible fluctuation/increase of EURIBOR on the loan taken from a bank, i. e. effectively switching the interest into a fixed rate (Note 14). In 2018 and 2017 the Group and the Company have entered into electricity forward contracts with a purpose to hedge against a possible fluctuation of electricity prices (Note 14). The Company is exposed to the risks of electricity price and interest rate volatility. These hedged items are subject to a single risk component, thus the Company hedged an item in its entirety, not splitting into different components.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the fixed rate loan (i.e., notional amount, maturity, payment and reset dates) and the terms of electricity forwards matches the terms of the highly probable forecast electricity purchase (i.e., notional amount, maturity). The Group/Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks are identical to the hedged risk component. To test the hedge effectiveness, the Group/Company uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

The hedge ineffectiveness can arise from:
• Differences in timing of cash flows of the hedged item and hedging instrument;
• The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item;
• Changes to the forecasted amount of cash flows of hedged items and hedging instruments.

2.15. Borrowings

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. The Group capitalises borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. However, there were no borrowing costs matching the capitalisation criteria in 2018 and 2017.

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings (except for the capitalized part) using the effective interest method.

2 Accounting policies (cont'd)

2.16. Financial and operating leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use an asset.

Financial lease

Finance leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease. The Group recognises financial leases as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, to the present value of the minimum lease payments. The rate of discount used when calculating the present value of minimum payments of financial lease is the interest rate implicit in the financial lease agreement, when it is possible to determine it, in other cases, Group's incremental interest rate on borrowings applies. Directly attributable initial costs are included into the asset value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

The depreciation is accounted for financial lease assets. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets cannot be depreciated over a period longer than lease term, unless the Group, according to the lease contract, obtains ownership at the end of the lease term.

Operating lease

Leases where the lessor retains all significant risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

2.17. Income tax

The Group companies are taxed individually, irrespective of the overall results of the Group. Income tax charge is based on profit for the year and considers deferred taxation. The charge for taxation included in these financial statements is based on the calculation made by the management in accordance with tax legislation of the Republic of Lithuania, the Republic of Latvia, the Republic of Estonia and the Republic of Poland.

The standard income tax rate in Lithuania is 15%, in the Republic of Poland – 19%, in the Republic of Latvia – 0% starting 1 January 2018 (until 1 January 2018 – 15%) and in the Republic of Estonia – 0% (though dividends paid are taxable in as explained further).

Starting from 1 January 2014 the tax loss carry forward that is deductible cannot exceed 70% of the current financial year taxable profit in Lithuania. Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the company changes its activities due to which these losses were incurred except when the company does not continue its activities due to reasons which do not depend on the company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Tax losses in the Republic of Poland may be carried forward to the following five tax years to offset profits from all sources that are derived in those years. Up to 50% of the original loss may offset profits in any of the five tax years. Losses may not be carried back.

Tax losses in the Republic of Latvia could have been carried forward until 1 January 2018.

As the object of taxation in Estonia and Latvia (starting 1 January 2018) is dividends, not profit, there are no differences between the carrying amounts and tax bases of assets and liabilities which could give rise to deferred tax assets or liabilities. The income tax payable on dividends is recognised as the income tax expense of the period in which the dividends are declared. The tax rate in Estonia for 2018 and 2017 was 20/80 of the amount distributed as the net dividend (in Latvia same rate is applicable starting 1 January 2018). If all retained earnings of Estonian subsidiary would be distributed as dividends, tax liability would be immaterial (there is no distributable profit accumulated in Latvian subsidiary).

2 Accounting policies (cont'd)

2.17. Income tax (cont'd)

Deferred taxes are calculated using the liability method. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the date of the statement of financial position.

Deferred tax assets have been recognised in the statement of financial position to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

2.18. Revenue recognition

<u>Revenue from contracts with customers (starting 1 January 2018)</u>

Revenue from contracts with customers is recognised when control of the services or gods are transferred to the customer at an amount that reflects the consideration to which the Group/Company expects to be entitled in exchange for those services or goods. The Group/Company has concluded that it is the principal in its revenue arrangements (except for agent activity described below), because:
- The entity controls the goods or services before transferring them to the customer;
- The entity is primarily responsible for electricity supply and bears risk of non-performance;
- The entity has latitude in establishing price either directly or indirectly.

Management made the judgement that for the quantity of electricity sold by the Company in power exchange and acquired by the subsidiaries in Latvia and Estonia from power exchange, the Company in substance has customer contracts with subsidiaries as defined by IFRS 15.

Sale of electricity is recognised at the time of delivery, based on the value of the volume supplied. Physical electricity sales and purchase contracts are accounted for on accrual basis as they are contracted with the Group's/Company's expected purchase, sale or usage requirements.

Starting 1 January 2018 accrued income representing electricity supplied until the last day of the month, for which invoice is issued next month is presented as Contract assets and are reclassified to the account receivable as soon as sales invoices are issued in subsequent month (Note 9).

Physical electricity sales and purchases are done through the power exchange (Nord Pool).

Equivalent trades on power exchange is presented net, i.e. the sales and purchases are netted on the Company and the Group level on an hourly basis and posted either as revenue or cost, according to whether the Company and the Group is a net seller or a net buyer during any particular hour.

Electricity grid services related revenue are recognised in the statement of comprehensive income in net amount by applying the agent accounting principle as:
- The entity has not the primary responsibility for electricity grid services;
- The entity has no latitude in establishing prices, either directly or indirectly.

Revenue from sales of produced electricity is recognised based on actually transmitted volume of electricity produced.

Revenue from other services is recognised when services are rendered, although such transactions are rear and not material.

Due to the Group's/ Company's business nature, apart from what is described in this note, the management did not make any other significant accounting judgments, estimates and assumptions relating to revenue from contracts with customers recognition, as there are no complex/multi-elemental services or goods, no variable consideration, financing component, contract cost or amounts payable to the customers.

2 Accounting policies (cont'd)

2.18. Revenue recognition

Sales (until 1 January 2018)

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Sale of electricity is recognised at the time of delivery, based on the value of the volume supplied. Physical electricity sales and purchase contracts are accounted for on accrual basis as they are contracted with the Group's expected purchase, sale or usage requirements.

Physical electricity sales and purchases are done through the power exchange (Nord Pool). The sales and purchases are netted on the Company and the Group level on an hourly basis and posted either as revenue or cost, according to whether the Company and the Group is a net seller or a net buyer during any particular hour.

Revenue from sales of produced electricity is recognised on accrual basis when transfer of risks and rewards has been completed based on actually transmitted volume of electricity produced.

Electricity grid services related income are recognised in the statement of comprehensive income in net amount by applying the agent accounting principle as:

- The entity has not the primary responsibility for including electricity grid services into invoices issued to the customers;
- The entity has no latitude in establishing prices, either directly or indirectly.

Revenue from services is recognised when services are rendered.

Other income:

Dividend income is recognised when the dividends are declared.

Interest income or expense are recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. It is included in finance income or expenses in the statement of comprehensive income

2.19. Impairment of non-financial assets

Other assets (excluding goodwill)

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the statement of comprehensive income. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted for in the same caption of the statement of comprehensive income as the impairment loss.

2 Accounting policies (cont'd)

2.20. Use of judgments and estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation and amortisation (Notes 2.5, 2.6, 4 and 5), fair value of the investment property (Note 2.7), hedge effectiveness estimation (Note 2.14), impairment evaluation of goodwill and licences, including allocation of Group assets to cash generating units (Notes 2.3 and 4), impairment evaluation of investments to subsidiaries (Note 1), the land lease classification and measurement (Note 5 and 13) and revenue recognition (Note 2.18). The management also made a judgement regarding the provision for the wind power plants dismantling, which was considered not material taking into account the passage of time and expected value of the cost to dismantle. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

At the date of the preparation of these financial statements, the underlying assumptions and estimates were not subject to a significant risk that the carrying amounts of assets and liabilities will have to be adjusted significantly as a result of changes in estimates in the subsequent financial year.

2.21. Contingencies

Contingent liabilities are not recognised in the financial statements, except for contingent liabilities associated with business acquisitions. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits are probable.

The tax authorities may at any time during the consecutive 5 subsequent tax years examine the books and accounting records and calculate the additional taxes and penalties. The Group's/Company's management does not know any circumstances, which could result in potential significant liability in this regard.

2.22. Subsequent events

Subsequent events that provide additional information about the Group's and the Company's position at the date of statement of financial position (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

(all amounts are in EUR thousand unless otherwise stated)

3 Segment information

For management purposes, the Group is organized into business units based on type of activities and has two reportable segments:

- Purchase and sales of electricity;
- Production and sales of electricity.

The segment of purchase and sales of electricity includes operations of UAB INTER RAO Lietuva, SIA INTER RAO Latvia, OU INTER RAO Eesti and Sp. z o.o. IRL Polska. The Group and the Company have entered into contracts for the purpose of the receipt and delivery of electricity in accordance with the entity's expected purchase, sale or usage requirements. Furthermore, the Group and the Company also perform trading sales of electricity on the power exchange.

The segment of production and sales of electricity includes operations of Vydmantai wind park, UAB. Electricity is produced by wind turbines and sold to AB Lietuvos energijos gamyba.

For management purposes, the Company is organized into a single business unit - purchase and sales of electricity, therefore this note does not include any disclosures on operating segments on the Company's level as they are the same as information provided by the Company in these financial statements.

No operating segments have been aggregated to form the above reportable operating segments.

Segment performance is evaluated based on operating profit or loss and is measured consistently with profit from operations in the consolidated financial statements.

Finance income and expenses are allocated to individual segments as the underlying instruments are managed for each separate segment separately.

Transfer prices between operating segments are based on the prices set by the management, which management considers being similar to transactions with third parties.

Operating Segments

The following tables present revenue, expenses, profit and certain asset and liability information regarding the reportable operating segments:

Group Year ended 31 December 2018	**Electricity purchases and sales**	**Electricity production and sales**	**Total Segments**	**Unallocated items**	**Consolidated**
Revenue					
External customers	283,913	4,356	288,269	-	288,269
Total revenue	**283,913**	**4,356**	**288,269**	**-**	**288,269**
Results					
Depreciation and amortisation	74	2,336	2,410	-	2,410
Interest expenses	45	349	394	-	394
Income tax expenses	3,118	177	3,295	-	3,295
Share of loss of the joint venture	-	-	-	(13)	(13)
Segment operating profit/profit from operations	**13,837**	**1,097**	**14,934**	**-**	**14,934**
Segment assets	**38,825**	**22,850**	**61,675**	**67**	**61,742**
Segment liabilities	**32,214**	**9,505**	**41,719**	**2,564**	**44,283**

Segment assets and liabilities are presented after elimination of intercompany assets and liabilities within the segment, which are eliminated on consolidation.

Other disclosures					
Interest in a joint venture	-	-	-	79	79
Capital expenditure	13	15	28	-	28

Capital expenditure consists of additions of property, plant and equipment, intangible assets, investment properties and assets from the acquisition of subsidiaries.

(all amounts are in EUR thousand unless otherwise stated)

3 Segment information (cont'd)

Group Year ended 31 December 2017	Electricity purchases and sales	Electricity production and sales	Total Segments	Unallocated items	Consolidated
Revenue					
External customers	173,848	5,530	179,378	-	179,378
Total revenue	**173,848**	**5,530**	**179,378**	**-**	**179,378**
Results					
Depreciation and amortisation	121	2,337	2,458	-	2,458
Interest expenses	63	514	577	-	577
Income tax expenses	1,233	293	1,526	-	1,526
Share of loss of the joint venture	-	-	-	(19)	(19)
Segment operating profit/profit from operations	**8,666**	**2,245**	**10,911**	**-**	**10,911**
Segment assets	**22,489**	**25,897**	**48,386**	**47**	**48,433**
Segment liabilities	**17,536**	**11,581**	**29,117**	**1,343**	**30,460**

Segment assets and liabilities are presented after elimination of intercompany assets and liabilities within the segment, which are eliminated on consolidation.

Other disclosures					
Interest in a joint venture	-	-	-	93	93
Capital expenditure	17	-	-	-	17

Capital expenditure consists of additions of property, plant and equipment, intangible assets, investment properties and assets from the acquisition of subsidiaries.

Reconciliation of liabilities	31 December 2018	31 December 2017
Segment operating liabilities	41,719	29,117
Deferred tax liabilities	654	1,322
Current tax payable	1,910	21
Group total liabilities	**44,283**	**30,460**

Reconciliation of assets	31 December 2018	31 December 2017
Segment operating assets	61,675	48,386
Prepaid income tax	67	47
Group total assets	**61,742**	**48,433**

(all amounts are in EUR thousand unless otherwise stated)

3 Segment information (cont'd)

Geographical information

The following table presents the Group's and the Company's geographical information on revenue based on the location of the customers:

	Group		Company	
	2018	**2017**	**2018**	**2017**
Lithuania*	244,280	133,800	234,014	128,270
Latvia	10,750	13,058	-	-
Estonia	14,641	19,661	6,388	12,691
Other countries	18,598	12,859	261	826
Total revenue	**288,269**	**179,378**	**240,663**	**141,787**

*Excluding equivalent trades on power exchange

Revenue from each single customer exceeding 10% of the Group's and the Company's revenue in 2018 amounted to EUR 162 million (2017 amounted to EUR 27 million) made in Nord Pool Spot market. In 2018 there were no customer from which revenue would exceed 10% of the Group's electricity production and sales segment revenue. In 2017 there were EUR 6 million of such sales.

The major part of the Group's and Company's non-current assets is located in Lithuania. Non-current assets consist of property, plant and equipment, investment property, intangible assets, non-current financial and other assets.

4 Intangible assets

Group	**Goodwill**	**Operating license**	**Other intangible assets**	**Total**
Cost				
Balance as at 31 December 2016	2,875	11,397	89	14,361
Balance as at 31 December 2017	2,875	11,397	89	14,361
Additions	-	-	24	24
Balance as at 31 December 2018	2,875	11,397	113	14,385
Accumulated amortization and impairment				
Balance as at 31 December 2016	2,159	6,565	63	8,787
Amortization for the period	-	1,213	25	1,238
Balance as at 31 December 2017	2,159	7,778	88	10,025
Amortization for the period	-	1,206	4	1,210
Balance as at 31 December 2018	2,159	8,984	92	11,235
Net book value as at 31 December 2016	**716**	**4,832**	**26**	**5,574**
Net book value as at 31 December 2017	**716**	**3,619**	**1**	**4,336**
Net book value as at 31 December 2018	**716**	**2,413**	**21**	**3,150**

The above intangible assets were identified during the purchase price allocation as a result of the business combination in 2011, when the Company acquired wind power plant business operating under the entity Vydmantai wind park UAB.

Operating license is a license to produce wind generated electricity with an embedded favourable fixed feed-in tariff applied until 2020 (the license itself has no validity term although the benefit associated is temporal).

Amortization expenses and impairment expenses of intangible assets are included into the general and administrative expenses caption (Note 19) in the statement of comprehensive income.

4 Intangible assets (cont'd)

Goodwill and licences impairment

For the purpose of the impairment test, the goodwill and licences as at 31 December 2018 and 2017 were allocated to the following cash generating unit (CGU) – wind energy generation and sales business unit – Vydmantai wind park, UAB.
The recoverable amount of the cash generating unit was determined based on the value in use calculation using discounted cash flow projections based on the 16 years financial forecasts prepared by the management. The pre-tax discount rate of 9.5 % (post tax – 8.1%) in 2018 and 2017 was applied. Defined period forecast represents the estimated useful life of wind power plants, a fixed feed-in tariff was applied to forecast revenue until 2020 (inclusive), and the expected market price is applied starting 2021. The following significant assumptions were used for the assessment of the value in use in 2018 and 2017:

1) the quantity of electricity produced, which further depends on (i) the availability of wind turbines (it is expected that availability will not fluctuate significantly over the first half of the forecasted period and in the remaining period will decrease due to a normal wear and tear of the equipment, regular maintenance of which is performed) and (ii) the efficiency of wind turbines, depending on the wind speed (efficiency level in a long run is forecasted at the slightly lower than historical level due to a rather high level of unpredictability);
2) the electricity sales price - revenues are expected to remain rather stable until 2020 due to a feed-in tariff applied, which ensures the sales of electricity at a stable price, in the following years, electricity will be sold at market price, which is expected to be initially lower than the feed-in tariff and to increase over the period by 1.5% growth rate annually. Such forecasts are based on the Group's management estimate, since the Group is one of the most experienced players in this market and there is no reliable long-term external prognosis;
3) discount rate – based on the objective market, industry and specific for CGU circumstances (also considering a component of higher risk in respect of electricity price related uncertainties).

As a result of the analysis above, no impairment was recognised in 2018 and 2017.

The management strongly believes that in the long run (considering historical trends) the availability and efficiency levels of turbines will impact the quantities of the generated electricity in the way that the quantities will be stable in the first half of the forecasted period and will gradually decrease in the remaining period due to natural ageing of equipment without other significant changes. Therefore sensitivity analysis for this element was not performed.

The discount rate is derived from weighted average cost of capital (post tax) – WACC (8.1% as at 31 December 2018 and 2017). Considering decreased level of interest rates in world markets, it is not expected to change upwards in the near future, therefore sensitivity analysis was not performed. As well there is no expected downwards change in discount rate, although this would result in positive impact.

Electricity price after 2020 cannot be forecasted accurately at the moment, however, if more conservative approach would be used, i.e. the prices of electricity starting 2021 would be reduced by 6.5% (in comparison to the currently used management estimate) and further increased by 1.5% each year through the remaining period of the forecast and all the rest of the assumptions remained constant, the carrying amount of the CGU would be equal to the recoverable amount calculated. In case even lower electricity prices would be used to forecast cash flows, additional impairment would occur if discount rate and other key assumptions remain constant.

At the time of preparing these financial statements the management of the Group did not expect any significant changes in the assumptions used, including the electricity prices and discount rate, within the next 12 months of the date of the statement of financial position.

(all amounts are in EUR thousand unless otherwise stated)

5 Property, plant and equipment

Movement of property, plant and equipment in 2018 and 2017 is presented below:

Group

	Land*	Buildings and structures	Office premises	Machinery and equipment	Other property plant and equipment	Total
Cost						
Balance as at 31 December 2016	873	3,850	1,132	21,424	109	27,388
Additions	-	-	-	-	17	17
Write-offs and disposals	-	-	-	-	(22)	(22)
Balance as at 31 December 2017	873	3,850	1,132	21,424	104	27,383
Additions	-	-	-	-	4	4
Write-offs and disposals	-	-	-	-	(3)	(3)
Balance as at 31 December 2018	873	3,850	1,132	21,424	105	27,384
Accumulated depreciation						
Balance as at 31 December 2016	219	959	359	5,210	67	6,814
Depreciation for the period	42	165	75	917	21	1,220
Write-offs and disposals	-	-	-	-	(22)	(22)
Balance as at 31 December 2017	261	1,124	434	6,127	66	8,012
Depreciation for the period	36	164	76	918	6	1,200
Write-offs and disposals	-	-	-	-	(3)	(3)
Balance as at 31 December 2018	297	1288	510	7,045	69	9,209
Net book value as at 31 December 2016	**654**	**2,891**	**773**	**16,214**	**42**	**20,574**
Net book value as at 31 December 2017	**612**	**2,726**	**698**	**15,297**	**38**	**19,371**
Net book value as at 31 December 2018	**576**	**2,562**	**622**	**14,379**	**36**	**18,175**

*Land balance represents capitalised financial land lease.

(all amounts are in EUR thousand unless otherwise stated)

5 Property, plant and equipment (cont'd)

Company	**Office premises**	**Other property plant and equipment**	**Total**
Cost			
Balance as at 31 December 2016	1,132	83	1,215
Additions	-	3	3
Write-offs and disposals	-	(22)	(22)
Balance as at 31 December 2017	1,132	64	1,196
Additions	-	11	11
Write-offs and disposals	-	(19)	(19)
Balance as at 31 December 2018	1,132	56	1,188
Accumulated depreciation			
Balance as at 31 December 2016	359	49	408
Depreciation for the period	75	18	93
Write-offs and disposals	-	(22)	(22)
Balance as at 31 December 2017	434	45	479
Depreciation for the period	76	14	90
Write-offs and disposals	-	(19)	(19)
Balance as at 31 December 2018	510	40	550
Net book value as at 31 December 2016	**773**	**34**	**807**
Net book value as at 31 December 2017	**698**	**19**	**717**
Net book value as at 31 December 2018	**622**	**16**	**638**

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2018 amounts to EUR 1,200 thousand and EUR 90 thousand, respectively (2017 amounts to EUR 1,220 thousand and EUR 93 thousand, respectively). These amounts are included into the general and administrative expenses in the statement of comprehensive income except for the amount of EUR 1,122 thousand in 2018 (EUR 1,123 thousand in 2017), which is included in the cost of sales in the Group's statement of comprehensive income.

Land was leased under finance lease agreements (Note 13) in 2018 and 2017. In 2013 the lease contract of buildings and structures was refinanced by a long term loan and buildings and structures, machinery and equipment of the subsidiary Vydmantai wind park UAB are pledged to the bank to secure the loans received by the Group (Note 12).

There were no material fully depreciated property, plant and equipment in the Group and the Company as at 31 December 2018 and 2017.

(all amounts are in EUR thousand unless otherwise stated)

6 Interest in a joint venture

As at 31 December 2018 and 2017 the Company has a 49.99% interest in UAB Alproka, a jointly controlled entity, which is engaged in the development of real estate projects (also see Note 1).

UAB Alproka is a private entity, not listed. The following table illustrates summarized financial information (unaudited) of the Group's investment into UAB Alproka, which is accounted for using the equity method in the consolidated financial statements:

Joint venture's statement of financial position	As at 31 December 2018	As at 31 December 2017
Current assets	170	201
Non-current assets	-	5
Current liabilities	(12)	(21)
Non-current liabilities	-	-
Equity	**158**	**185**
Share of joint venture's equity	79	93
Joint venture's revenue and profit		
Revenue	5	4
Profit (loss)	(27)	(38)

Based on shareholders decision UAB Alproka is undergoing liquidation process as of 31 December 2018, which is expected to be finished in 2019.

7 Other non-current and current financial assets

Other non-current financial assets:

	Group		Company	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Non-current receivables	120	336	-	-
Non-current guarantees (deposits)	123	208	-	30
Other non-current financial assets	32	41	32	41
	275	**585**	**32**	**71**

Prepayments:

As at 31 December 2018 prepayments of the Group and the Company comprise of EUR 3,360 thousand prepayments related to derivatives (Note 14), there were no such prepayments as at 31 December 2017. Other prepayments consist mainly of financial lease prepayments and guarantee deposits for clearing house in Poland.

Other current financial assets:

As at 31 December 2018 and 2017 other current financial assets of the Group comprise of EUR 1,000 thousand deposit in Swedbank AB. Monthly deposit with automatic extension is placed and accounted for in current assets. Deposit is mandatory guarantee under the credit agreement, which is disclosed under Note 12.

As at 31 December 2018 the Group and the Company accounted for under other current financial assets security deposits paid in total amount of EUR 270 and EUR 207 thousand (EUR 542 thousand and EUR 542 thousand as at 31 December 2017).

(all amounts are in EUR thousand unless otherwise stated)

8 Trade receivables

As at 31 December 2018 and 2017 the Group's and the Company's trade receivables consisted of receivables for supplied electricity.

	Group		Company	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Trade receivables, gross	11,858	14,434	9,798	12,468
Less: allowance for doubtful trade receivables	(2)	(25)	-	(18)
	11,856	**14,409**	**9,798**	**12,450**

As at 31 December 2018 the Group had EUR 2 thousand of doubtful receivables, the Company had none. As at 31 December 2017 the Group had EUR 25 thousand and the Company had EUR 18 thousand.

		Trade receivables past due but not impaired			
Group	**Trade receivables neither past due nor impaired**	**Less than 30 days**	**30 – 60 days**	**More than 60 days**	**Total**
2018	11,741	79	18	20	**11,858**
2017	13,808	415	108	103	14,434

		Trade receivables past due but not impaired			
Company	**Trade receivables neither past due nor impaired**	**Less than 30 days**	**30 – 60 days**	**More than 60 days**	**Total**
2018	9,746	50	-	2	**9,798**
2017	11,891	373	108	96	12,468

Trade receivables are non-interest bearing and are generally collectible on 2-30 days terms.

9 Contract assets. Accrued income and other receivables

As at 31 December 2018 contract assets consist of accrued income amounting to EUR 1,120 thousand, which represent earned but not invoiced electricity sales revenues as of the year end in one of the Group subsidiaries, whole amount is not due and no impairment is accounted for.

As at 31 December 2017, accrued income and other receivables of the Group mainly consisted of accrued income amounting to EUR 1,522 thousand (correspond to contract assets as of 1 January 2018).

There were no past due other receivables of the Group and the Company as at 31 December 2018 and 2017.

10 Cash and cash equivalents

	Group		Company	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Cash at bank	20,737	5,124	19,110	3,026
Cash in transit	-	67	-	-
	20,737	**5,191**	**19,110**	**3,026**

(all amounts are in EUR thousand unless otherwise stated)

11 Reserves

Legal reserve

Legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital.

As at 31 December 2018 and 2017 the Company's legal reserve was fully formed.

In 2018 the Company's subsidiary Vydmantai wind park, UAB made a transfer to legal reserve in the amount of EUR 72 thousand, no such transfer was done in 2017.

Cash flow hedge reserve

This reserve represents the effective part of the change in fair value of the derivative financial instruments (interest rate swaps and electricity forward contracts), used by the Group and the Company to secure the cash flows from interest rate and electricity price change risk, at the reporting date. The reserve is accounted for according to the requirements of IFRS9 (IAS 39 until 1 January 2018), (Note 14).

12 Borrowings

As at 31 December the financial debts consist of:

	Group		Company	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Non-current borrowings	3,852	7,150	-	-
Current portion of non-current borrowings	3,300	3,300	-	-
Other current financial debts (a)	-	3,795	-	3,795
	7,152	**14,245**	**-**	**3,795**

Vydmantai wind park, UAB has loan agreement with Swedbank AB, according to which all land lease rights, buildings and structures, machinery and equipment, funds in bank accounts and 100 % of Vydmantai wind park, UAB shares are pledged. Interest rate applied is 6 months EURIBOR + 2.45 %. The loan is denominated in EUR and the final repayment date is 30 June 2020.

As of 31 December 2018, one of the Group companies breached one of the covenants set in loan agreement (total balance of loan under breach is EUR 7,150 thousand). However, before year end it has obtained a written bank waiver, confirming bank will not take any measures against the entity due to incompliance. Therefore, long-term part of the loan has not been reclassified to current liabilities.

(a) The Company entered into loan agreements with the shareholders RAO Nordic Oy and UAB Scaent Baltic in 2017. The loans which were outstanding as at 31 December 2017 were repaid in 2018 and no new loans withdrawn in 2018. The interest rates were equal to average interest rate of loans by commercial banks of the Republic of Finland granted to new business (non-financial corporations) over 1 million EUR. The loans were denominated in EUR and the final repayment date was 31 March 2018. Interest rate applicable as at 31 December 2017 was 1.3%.

Future loan payments under the above mentioned loan contracts as at 31 December 2018 and 2017 are as follows:

	Group		Company	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Within one year	3,300	7,095	-	3,795
From one to five years	3,852	7,150	-	-
After five years	-	-	-	-
Total borrowings	**7,152**	**14,245**	**-**	**3,795**

(all amounts are in EUR thousand unless otherwise stated)

13 Lease

Financial lease

The Group leases land under financial lease contracts with the net book value of EUR 576 thousand as at 31 December 2018 (EUR 612 thousand as at 31 December 2017). For the financial reporting purpose, the judgmental period of 20 years from the inception date as lease term (representing usage of wind farm) was used by the management. The interest rate applied is 4.8%.

Future minimal lease payments under the above mentioned financial lease contracts as at 31 December 2018 and 2017 are as follows:

	As at 31 December 2018	As at 31 December 2017
Within one year	70	70
From one to five years	279	279
After five years	545	615
Total financial lease obligations	894	964
Interest	(243)	(273)
Present value of financial lease obligations	651	691
Financial lease obligations are accounted for as:		
- current	38	37
- non-current	613	654

Financial lease obligations are denominated in EUR.

Operating lease

The Group and the Company concluded several operating lease contracts for vehicles and premises. The terms of lease do not include restrictions of the activities of the Group and the Company in connection with the dividends, additional borrowings or additional lease agreements.

At 31 December 2018 the future aggregate minimum lease payments under operating leases were as follows:

	Group	Company
Within one year	151	112
From one to five years	172	154
After five years	-	-

(all amounts are in EUR thousand unless otherwise stated)

14 Derivative financial instruments

	Group		Company	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Derivative financial instruments, non-current part – assets (hedge)	-	-	-	-
Derivative financial instruments, non-current part – assets (non-hedge)	-	24	-	24
Derivative financial instruments, current part – assets (hedge)	-	115	-	115
Derivative financial instruments, current part – assets (non-hedge)	-	512	-	512
Accounts receivable for derivative financial instruments	400	48	400	63
Derivative financial instruments, non-current part - liabilities (hedge)	(14)	(78)	-	(16)
Derivative financial instruments, current part - liabilities (hedge)	(5,769)	(185)	(5,664)	(48)
Derivative financial instruments, current part - liabilities (non-hedge)	-	(394)	-	(394)
Accounts payable for derivative financial instruments	-	(14)	-	(15)
Total derivative financial instruments	**(5,383)**	**28**	**(5,264)**	**241**

As at 31 December 2018 and 2017, the Group's company Vydmantai wind park, UAB had an interest rate swap agreement for purpose of future cash flow hedge on loan taken with nominal amount of EUR 5,975 thousand (Note 12). On 29 June 2012 the Group has concluded interest rate swap agreement for the period from 17 July 2012 to 17 October 2020. The Group's company pays a fixed interest rate at 1.65 % and receives a floating interest rate at 6-month EURIBOR on a notional amount set in the agreement.

In 2018 and 2017 the Group's companies AB INTER RAO LIETUVA and OU INTER RAO Eesti signed electricity forward contacts for the purposes of future cash flow hedge (as of the year end 2018 and 2017 861,479 mWh and 545,160 mWh were hedged with forward contracts respectively). The forward contracts are for 2017, 2018 and 2019 years.

The fair value of derivative financial instruments is measured by management at each reporting date. The change in fair value of the effective part of interest rate swap and electricity forward contracts is recognised in other comprehensive income and the change in fair value of the non-effective part of interest rate swap and electricity forward contracts as well as change in fair value or hedging result of other derivative financial instruments not designated as hedge are recognised directly in finance income (costs) in the statement of comprehensive income.

(all amounts are in EUR thousand unless otherwise stated)

14 Derivative financial instruments (cont'd)

The fair values of interest rate swap contract designated to hedge interest rate risk and electricity forward contracts of the Group are presented below:

	As at 31 December 2018		As at 31 December 2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate swap contract				
Fair value (level 2)	-	119	-	263
Electricity forward contracts				
Fair value (level 1)	-	5,664	651	394

The fair values of electricity forward contract of the Company are presented below:

	As at 31 December 2018		As at 31 December 2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Electricity forward contracts				
Fair value (level 1)	-	5,664	651	457

The following table summarizes amounts recognised in other comprehensive income during the period and in the finance costs in the statement of comprehensive income:

	Group		Company	
	As at 31 December 2018	**As at 31 December 2017**	**As at 31 December 2018**	**As at 31 December 2017**
Recognised:				
Gain (loss) on interest rate swap contract	144	199	-	-
Gain (loss) on electricity forward contracts	(5,291)	(571)	(5,857)	(543)
Recognised in the statement of comprehensive income as financial income (expenses):				
Derivatives not designated as hedging instruments	-	145	-	145
Realized part of electricity forward contracts not designated as hedging instruments	(145)	(594)	(145)	(594)
Recognised in other comprehensive income:				
Gain (loss) on interest rate swap contract (effective part)	114	199	-	-
Gain (loss) on electricity forward contracts (effective part)	(5,778)	(122)	(5,712)	(94)
Income tax effect	850	(12)	857	14

15 Trade payables

	Group		Company	
	As at 31 December 2018	**As at 31 December 2017**	**As at 31 December 2018**	**As at 31 December 2017**
Payables to electricity suppliers	25,553	10,096	25,437	9,632
Payables to other suppliers	261	203	164	176
	25,814	**10,299**	**25,601**	**9,808**

Trade payables are non-interest bearing and are normally settled on 20-day terms.

(all amounts are in EUR thousand unless otherwise stated)

16 Other current liabilities

	Group		Company	
	As at 31 December 2018	**As at 31 December 2017**	**As at 31 December 2018**	**As at 31 December 2017**
VAT payable	1,603	2,234	1,215	1,767
Employment related liabilities	223	154	200	129
Security deposits received	-	230	-	230
Other current liabilities	477	520	51	26
	2,303	**3,138**	**1,466**	**2,152**

17 Revenue from contracts with customers. Sales

	Group		Company	
	2018	**2017**	**2018**	**2017**
Revenue from sales of electricity	283,913	173,852	240,663	141,787
Revenue from produced electricity sales	4,356	5,526	-	-
	288,269	**179,378**	**240,663**	**141,787**

The increase in revenue of the Group and the Company comparing to 2017 is mostly due to increase in electricity market prices and trade volume.

Disaggregation of Revenue from contracts with customers for the year 2018:

	Group	**Company**
Revenue from sales of electricity to end users	83,960	54,135
Revenue from sales of electricity to power exchange (excluding equivalent trades on power change)	204,309	186,528
	288,269	**240,663**

18 Cost of sales

	Group		Company	
	2018	**2017**	**2018**	**2017**
Cost of purchase of electricity*	260,495	157,528	217,952	126,497
Transmission network service cost	3,009	1,646	3,009	1,646
Depreciation on wind park	1,083	1,081	-	-
Other expenses**	966	769	-	-
	265,553	**161,024**	**220,961**	**128,143**

* Cost of purchased electricity also includes the fees paid during the year and accrued as at the balance sheet date for not acquired agreed quantity of electricity.
** Other expenses mainly comprise maintenance of wind park and land lease amortisation.

The increase in cost of sales of the Group and the Company comparing to 2017 is mostly due to increase in electricity purchase prices and trade volume.

(all amounts are in EUR thousand unless otherwise stated)

19 General and administrative expenses

	Group		Company	
	2018	2017	2018	2017
Wages, salaries and social security	2,830	2,679	2,354	2,161
Depreciation and amortization	1,303	1,335	90	117
Support (charity)	1,166	1,176	1,144	1,154
Electricity selling expenses	741	610	397	304
Consulting services expenses	171	400	171	188
Transport expenses	316	354	305	323
Professional services expenses	356	232	282	201
Business trips	38	35	38	35
Repair and maintenance	41	38	36	34
Tax expenses	114	94	67	48
Bank services	21	22	15	18
Rent	71	45	11	21
Trainings and seminars	25	25	25	25
Representation expenses	102	56	102	56
Impairment of investment (Note 1)	-	-	188	485
Other general and administrative expenses	487	342	299	254
	7,782	**7,443**	**5,524**	**5,424**

20 Finance income and expenses

	Group		Company	
	2018	2017	2018	2017
Finance income				
Fair value change of derivatives not designated as hedging instruments	200	143	200	143
Dividends income	-	-	350	-
Other (Note 2.7)	209	36	190	28
	409	**179**	**740**	**171**
Finance expenses				
Expenses related to derivatives not designated as hedging instruments	144	-	144	-
Interest expenses	394	577	45	63
Other	46	2	45	-
	584	**579**	**234**	**63**

21 Income tax

	Group		Company	
	2018	2017	2018	2017
Components of income tax expenses				
Current year income tax expenses	3,113	1,418	3,111	1,302
Deferred income tax expenses (benefit)	182	108	(22)	(140)
Income tax expenses charged to statement of comprehensive income	3,295	1,526	3,089	1,162

(all amounts are in EUR thousand unless otherwise stated)

21 Income tax (cont'd)

As at 31 December 2018 and 2017 the deferred income tax asset and liability was accounted for at 15 % and consisted of:

Group		**As at 31 December 2018**	**As at 31 December 2017**
Deferred income tax asset			
Tax deductible goodwill recognized upon merger including impairment	a)	1,122	1,251
Electricity derivative contracts		850	59
Cash flow hedge		-	10
Less: valuation allowance		-	-
Deferred income tax asset, net of valuation allowance		1,972	1,320
Deferred income tax liability			
Equity method		(12)	(14)
Intangible assets	b)	(362)	(543)
Electricity derivative contracts		-	(98)
Depreciation differences		(2,216)	(1,987)
Cash flow hedge		(8)	-
Fair value change of investment property		(28)	-
Deferred income tax liability		(2,626)	(2,642)
Deferred income tax, net		(654)	(1,322)
Presented in the statement of financial position as follows:			
Deferred income tax asset		-	-
Deferred income tax liability		654	1,322

Company	**As at 31 December 2018**	**As at 31 December 2017**
Deferred income tax asset		
Impairment of investment in joint venture and subsidiary (Note 1)	212	183
Electricity derivative contracts	850	69
Less: valuation allowance	-	-
Deferred income tax asset, net of valuation allowance	1,062	252
Deferred income tax liability		
Fair value change of investment property	(28)	-
Electricity derivative contracts	-	(97)
Deferred income tax liability	(28)	(97)
Deferred income tax, net	1,034	155
Presented in the statement of financial position as follows:		
Deferred income tax asset	1,034	155
Deferred income tax liability	-	-

(all amounts are in EUR thousand unless otherwise stated)

21 Income tax (cont'd)

a) As a result of the merger of Vydmantai wind park, UAB and UAB IRL Wind in 2013 in accordance with tax legislation the Group company Vydmantai wind park, UAB qualifies for recognition of tax deductible goodwill, which may be amortized per 15 years starting the merger date, the amount of such goodwill was estimated as EUR 12,477 thousand. Difference between the tax and financial goodwill created a deferred tax asset (which was assessed as recoverable) in the amount of EUR 1,614 thousand which was recognized in the statement of comprehensive income upon merger. The change represents amortisation of tax goodwill during the year and impact of financial goodwill impairment, if any.

b) Due to intangible assets (related to Vydmantai wind park, UAB) identified during the acquisition, a deferred income tax liability amounting to EUR 1,729 thousand was recognized. The decrease in deferred income tax liability in 2018 comparing to 2017 represents the amortisation of the related intangible assets during 2018.

The changes of temporary differences before and after tax effect in the Group were as follows:

Group	Balance as at 31 December 2017	Recognised in other comprehensive income	Recognised in profit or loss	Balance as at 31 December 2018
Equity method	(92)	-	13	(79)
Fair values change of investment property	-	-	(188)	(188)
Electricity derivative contracts	(257)	5,712	212	5,667
Intangible assets	(3,619)	-	1,206	(2,413)
Tax deductible goodwill recognized upon merger	8,338	-	(858)	7,480
Depreciation differences	(13,245)	-	(1,528)	(14,773)
Cash flow hedge	64	(48)	(69)	(53)
Total temporary differences	(8,811)	5,664	(1,212)	(4,359)
Deferred income tax, net	(1,322)	850	(182)	(654)

Group	Balance as at 31 December 2016	Recognised in other comprehensive income	Recognised in profit or loss	Balance as at 31 December 2017
Equity method	(111)	-	19	(92)
Electricity derivative contracts	(828)	122	449	(257)
Intangible assets	(4,832)	-	1,213	(3,619)
Tax deductible goodwill recognized upon merger	9,194	-	(856)	8,338
Depreciation differences	(11,697)	-	(1,548)	(13,245)
Cash flow hedge	263	(199)	-	64
Total temporary differences	(1,202)	(77)	(723)	(8,811)
Deferred income tax, net	(1,202)	(12)	(108)	(1,322)

(all amounts are in EUR thousand unless otherwise stated)

21 Income tax (cont'd)

The reported amount of income tax expenses attributable to the year can be reconciled to the amount of income tax expenses that would result from applying statutory income tax rate to pre-tax income as follows:

	Group		Company	
	2018	2017	2018	2017
Profit (loss) before tax	14,749	10,500	14,698	8,343
Income tax expenses computed at 15%	2,212	1,575	2,205	1,251
Permanent differences	1,083	(49)	884	(89)
Income tax expenses charged to statement of comprehensive income	3,295	1,526	3,089	1,162

There is no deferred income tax asset not recognized in financial statements of the Group and the Company as at 31 December 2018 and 2017 with no expiry date.

22 Basic and diluted earnings per share (EUR)

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued and paid during the year. The Group has no diluting instruments; therefore, basic and diluted earnings per share are equal.

Calculation of basic and diluted earnings per share is presented below:

Group	2018	2017
Net profit attributable to the shareholders	11,454,000	8,974,000
Number of shares, opening balance	20,000,000	20,000,000
Number of shares, closing balance	20,000,000	20,000,000
Weighted average number of shares	20,000,000	20,000,000
Basic and diluted earnings per share (EUR)	**0.57**	**0.45**

23 Dividends per share (EUR)

Company	2018	2017
Approved dividends (EUR)*	7,100,000	10,200,000
Number of shares (units)**	20,000,000	20,000,000
Approved dividends per share (EUR)	0.36	0.51

* The year when the dividends are approved.
** At the date when dividends are approved.

24 Financial assets and liabilities and risk management

Credit risk

The Group and the Company has a fairly significant concentration of trading counterparties. Trade receivables from the main three customers of the Group and the Company amounted to approximately 1/3 of the total Group's and Company's trade receivables as at 31 December 2018 (1/4 of the total Group's and Company's trade receivables as at 31 December 2017). The Group's and the Company's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history, which mainly are the state owned and financially stable private entities, and the majority of transactions is carried out through the market intermediary - electricity exchange Nord Pool. Therefore the Group's and the Company's management considers credit risk as immaterial.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Therefore, the Group's and the Company's management considers that its maximum exposure is reflected by the amount of trade receivables, contract assets and other financial assets less realisation allowance, recognised at the reporting date, if any.

Price risk

The Group, the Company and other group entities are exposed to the electricity price volatility in the market. The risk is mitigated using forward electricity purchase or sales contracts to hedge prices. Forward contracts do not result in physical delivery and are designated as cash flow hedges to offset the price changes (Note 14).

Interest rate risk

As at 31 December 2018 and 2017 the Group had borrowings which were subject to variable rates related to EURIBOR and created interest rate risk (Note 12).

As at 31 December 2018 and 2017 the Group manages its interest rate risk by having entered into an interest rate swap contract, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount (Note 14). Since 17 July 2012, the Group's loan turned to be with fixed interest (hedged by interest rate swap), therefore the Group does not face interest rate risk.

As at 31 December 2018 and 2017 the Group had material financial lease obligations with fixed interest rates; therefore, they did not create interest rate risk.

Liquidity risk

The Group and the Company manages its business in such a way which allows avoiding significant increases in working capital requirements. This is achieved primarily through the thorough management of payment dates for electricity purchased from suppliers and sold to the clients. The Group and the Company aims to maintain the longest possible gap between the dates when it receives the payment for the electricity sold and is obliged to pay for the electricity purchased. In cases when the Group or the Company forecasts possible increase in the level of required working capital it always has a possibility to take a credit line from the bank (this option has been discussed with the bank and it is possible to open a required credit line within the term of 1 month). All the excessive cash is deposited in the bank accounts.

The Group's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as at 31 December 2018 and 2017 were 1.0 and 1.01 respectively (1.1 and 1.11 as at 31 December 2017). The Company's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as at 31 December 2018 and 2017 were 1.0 and 1.03 respectively (1.12 and 1.112 as at 31 December 2017).

(all amounts are in EUR thousand unless otherwise stated)

24 Financial assets and liabilities and risk management (cont'd)

The tables below summarise the maturity profile of the Group's financial liabilities as at 31 December 2018 and 2017, based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing borrowings, other financial liabilities and financial lease obligations	-	916	2,608	4,192	476	8,192
Derivative financial instruments (liabilities)	-	1,442	4,327	14	-	5,783
Trade payables	-	25,814	-	-	-	25,814
Other current liabilities	-	477	-	-	-	477
Balance as at 31 December 2018	**-**	**28,649**	**6,935**	**4,206**	**476**	**40,266**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing borrowings, other financial liabilities and financial lease obligations	-	4,714	2,613	7,463	494	15,284
Derivative financial instruments (liabilities)	-	159	434	78	-	671
Trade payables	-	10,299	-	-	-	10,299
Other current liabilities	-	750	-	-	-	750
Balance as at 31 December 2017	**-**	**15,922**	**3,047**	**7,541**	**494**	**27,004**

The tables below summarise the maturity profile of the Company's financial liabilities as at 31 December 2018 and 2017 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Trade payables	-	25,601	-	-	-	25,601
Derivative financial instruments (liabilities)	-	1,416	4,248	-	-	5,664
Other current liabilities	-	51	-	-	-	51
Balance as at 31 December 2018	**-**	**27,068**	**4,248**	**-**	**-**	**31,316**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Other financial debts	-	3,807	-	-	-	3,807
Trade payables	-	9,808	-	-	-	9,808
Derivative financial instruments (liabilities)	-	125	332	16	-	473
Other current liabilities	-	256	-	-	-	256
Balance as at 31 December 2017	**-**	**13,996**	**332**	**16**	**-**	**14,344**

(all amounts are in EUR thousand unless otherwise stated)

24 Financial assets and liabilities and risk management (cont'd)

Change in financial liabilities arising from financial activities

Group	As at 31 December 2017	Cash flow	Change in fair value	Interests	As at 31 December 2018
Non-current borrowings	10,450	(3,649)	-	349	7,150
Interest rate swap contracts	263	-	(144)	-	119
Electricity forward contracts	(257)	-	(5,407)	-	(5,664)
Financial lease	691	(40)	-	-	651
Other financial debts	3,795	(3,807)	-	12	-
Total	**14,942**	**(7,496)**	**(5,551)**	**361**	**2,256**

Group	As at 31 December 2016	Cash flow	Dividends declared and converted to loan (Note 27)	Change in fair value	Interests	As at 31 December 2017
Non-current borrowings	13,750	(3,814)	-	-	514	10,450
Interest rate swap contracts	462	-	-	(199)		263
Electricity forward contracts	(828)	-	-	571	-	(257)
Financial lease	726	(35)	-	-	-	691
Other financial debts	1,251	(5,679)	8,160	-	63	3,795
Total	**15,361**	**(9,528)**	**8,160**	**372**	**577**	**14,942**

Company	As at 31 December 2017	Cash flow	Change in fair value	Interests	As at 31 December 2018
Electricity forward contracts	(193)	-	(5,471)	-	(5,664)
Other financial debts	3,795	(3,807)	-	12	-
Total	**3,602**	**(3,807)**	**(5,471)**	**12**	**(5,664)**

Company	As at 31 December 2016	Cash flow	Dividends declared and converted to loan (Note 27)	Change in fair value	Interests	As at 31 December 2017
Electricity forward contracts	(736)	-	-	543	-	(193)
Other financial debts	1,251	(5,679)	8,160	-	63	3,795
Total	**515**	**(5,679)**	**8,160**	**543**	**63**	**3,602**

Foreign exchange risk

The Group's and the Company's business transactions mainly are denominated in euro, therefore, the Group and the Company is not exposed to significant foreign exchange risk.

Fair value of financial instruments

The Group's and the Company's principal financial instruments not carried at fair value are trade and other receivables, contract assets, trade and other payables, non-current and current borrowings and financial lease.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(a) The carrying amount of current trade and other accounts receivable, contract assets, current accounts payable and current borrowings approximates fair value due to short coverage period (level 3);

(b) The fair value of non-current borrowings is based on the quoted market price for the similar issues or on the current rates available for borrowings with the same maturity profile (level 2). The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

Fair value of the Group's derivative financial instrument (interest rate swap) is defined as level 2 and fair value of electricity forwards in the Group and the Company are defined as level 1 (Note 14). The interest rate swap is valued using discounted cash flow or present value calculation method and pricing is based on market observable inputs. Electricity forward value is based on market value.

There were no movements of financial instruments between the fair value hierarchy levels during 2018 and 2017.

(all amounts are in EUR thousand unless otherwise stated)

25 Capital management

The primary objectives of the Group's and the Company's capital management are to ensure that the Group and the Company comply with externally imposed capital requirements and that the Group and the Company maintain healthy capital ratios in order to support the business and to maximize shareholders' value. The Group's and Company's capital consists of share capital in the amount of EUR 5.8 million, retained earnings and legal reserve.

The Group and the Company manage capital structure and makes adjustments to it in the light of changes in economic conditions and risk characteristics of the activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders and/or return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2018 and 2017.

In addition, companies registered in Lithuania are obliged to upkeep their equity at not less than 50 % of share capital, as imposed by the Law on Companies of the Republic of Lithuania. As at 31 December 2018 and 2017 the Company was in line with this regulation. There were no other externally imposed capital requirements on the Company and the Group.

Group companies registered in Latvia are obliged to keep its equity at no less than zero, as imposed by the Law on Companies of the Republic of Latvia. The Group's subsidiary SIA INTER RAO Latvia did not comply with this requirement as at 31 December 2018 and 31 December 2017. The Group's management does not expect any negative consequences to the Group and believes that the losses will be covered from SIA INTER RAO Latvia future profit from operations.

26 Related party transactions

Parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group are as follows:

PJSC Inter RAO (ultimate parent);
RAO Nordic Oy (one of the shareholders);
UAB Scaent Baltic (one of the shareholders);
SIA INTER RAO Latvia (subsidiary);
OU INTER RAO Eesti (subsidiary);
Sp z o.o. IRL Polska (subsidiary);
Vydmantai wind park, UAB (subsidiary);
UAB Alproka (joint venture);
Other related parties include:
UAB Scaent Baltic Group companies (the same shareholder);
Other shareholders;
Key Management.

2018

Group		**Purchases**	**Sales**	**Declared dividends**	**Receivables**	**Payables**
PJSC Inter RAO	a)	180,434	261	-	25	24,157
Oy RAO Nordic	b)	-	-	3,621	-	-
UAB Scaent Baltic	c)	5	-	2,059	-	-
Other related parties	d)	-	-	1,420	-	-
		180,439	**261**	**7,100**	**25**	**24,157**

2017

Group		**Purchases**	**Sales**	**Declared dividends**	**Receivables**	**Payables**
PJSC Inter RAO	a)	102,945	458	-	37	9,164
Oy RAO Nordic	b)	138	-	5,202	-	1,419
UAB Scaent Baltic	c)	21	-	2,958	-	2,390
Other related parties	d)	-	-	2,040	-	-
		103,104	**458**	**10,200**	**37**	**12,973**

(all amounts are in EUR thousand unless otherwise stated)

26 Related party transactions (cont'd)

2018		Purchases	Sales	Declared dividends	Receivables and prepayments	Payables
Company						
PJSC Inter RAO	a)	180,434	261	-	25	24,157
Oy RAO Nordic	b)	-	-	3,621	-	-
UAB Scaent Baltic	c)	5	-	2,059	-	-
SIA INTER RAO Latvia	e)	-	3,523	-	1,376	-
OU INTER RAO Eesti	e)	-	2,390	-	1,123	-
Vydmantai wind park, UAB		-	19	(350)	2	-
Other related parties	d)	-	-	1,420		
		180,439	**6,193**	**6,750**	**2,526**	**24,157**

2017		Purchases	Sales	Declared dividends/(received)	Receivables and prepayments	Payables
Company						
PJSC Inter RAO	a)	102,945	458	-	37	9,164
Oy RAO Nordic	b)	138	-	5,202	-	1,419
UAB Scaent Baltic	c)	21	-	2,958	-	2,390
SIA INTER RAO Latvia	e)	-	-	-	1,203	-
OU INTER RAO Eesti	e)	-	106	-	296	-
Vydmantai wind park, UAB		-	18	-	2	-
Other related parties	d)	-	-	2,040	-	-
		103,104	**582**	**10,200**	**1,538**	**12,973**

a) The Group and the Company performs electricity purchase and sales transactions with PJSC Inter RAO.
b) The main part of the payables to Oy RAO Nordic in 2017 consists of the loan (Note 12).
c) The main part of the payables to UAB Scaent Baltic in 2017 consists of the loan (Note 12).
d) In 2018 and 2017 the Company paid dividends to other shareholders.
e) Transactions with subsidiaries mainly represents assistance in electricity prices hedging and trading through power exchange, as well as short term working capital support.

The Company has an agreement with PJSC Inter RAO, according to which the Company is obliged to buy certain minimum amount of electricity in 2018.

Payables and receivables between related parties are non-interest bearing. Receivables and payables payment terms between the related parties are up to 15-30 days, except for the dividends and loans, which are repaid in accordance to the legal or contractual requirements, respectively.

Outstanding balances at the year-end are unsecured and settlement occurs in cash, unless agreed otherwise. There have been no guarantees provided or received for any related party receivable or payable and no allowance has been made for the receivables from related parties by the Group and by the Company. The balances outstanding with related parties of the Group and the Company were not overdue as at 31 December 2018 and 2017.

Management remuneration and other benefits

The Group's management includes each of the Group companies managing director, deputy director and director of commerce. Amounts of salaries and bonuses calculated during the years 2018 and 2017 for the management of the Group were as follows: EUR 711 thousand and EUR 697 thousand, respectively.

The Company's management includes managing director, deputy director and director of commerce. Amounts of salaries and bonuses calculated during the years 2018 and 2017 for the management of the Company were as follows: EUR 565 thousand, and EUR 564 thousand, respectively.

No other guarantees were issued to the Group's and Company's management and no other amounts were paid or calculated and no assets were disposed of.

(all amounts are in EUR thousand unless otherwise stated)

27 Non-monetary transactions

In April 2017 the general shareholders meeting decided to pay EUR 10,200 thousand dividends to the shareholders. EUR 8,160 thousand dividends payable were accounted for as loans payable to Oy RAO Nordic and UAB Scaent Baltic, which was repaid during 2017 and 2018 (Note 12, Note 24 and Note 26).

28 Subsequent events

There were no subsequent events, which could materially influence the financial statements for the year ended as of 31 December 2018.

General Manager	Giedrius Balčiūnas		12 February 2019
Chief Accountant	Edita Vagonienė		12 February 2019

Contents

(all amounts are in EUR thousand unless otherwise stated)

I. General Information

Reporting period

Year ended 31st December 2018

Company and its contact details

Company name	AB INTER RAO Lietuva (hereinafter – IRL or „the Company")
Company code	126119913
Legal form	Public company (joint-stock company)
Date of registration	21st December 2002
Name of register of Legal Entities	State Enterprise Centre of Registers
Registered office	A.Tumėno str. 4, block B, LT-01109 Vilnius
Telephone number	+370 5 242 11 21
Fax number	+370 5 242 11 22
E-mail	info@interrao.lt
Internet address	www.interrao.lt

Main activities of the Group of INTER RAO Lietuva

The Group of INTER RAO Lietuva (hereinafter – "the Group") is an independent supplier of electricity and, as such, may engage in various forms of electricity trading. Moreover, the Group is also present in electricity generation operations, as it owns a wind farm in Western Lithuania.

The Group is engaged in various forms of electricity trading: the purchase and sale of electricity under bilateral contracts with other electricity suppliers, as well as on the power exchange; supply of electricity to end-users; provision of balancing services for end-users and other wholesalers of electricity; sale and purchase of regulating and balancing electricity for the transmission system operators; cross-border electricity trading.

The Group has permission to import and export electricity to and from Lithuania, it is engaged in the import of electricity from Russia and, to a lesser extent, from Belarus, as well as in export to these countries. The Group is also active in cross-border electricity trading between Lithuania and other EU Member States, namely Latvia and Estonia.

The Group sells all of the electricity it cross-border from the third countries to the Lithuanian internal market on the power exchange since, in accordance with respective regulations, all electricity cross-border delivered to the Lithuanian internal electricity market has to be sold on the power exchange. Then the Group buys the electricity on the power exchange in a volume corresponding to its contractual obligations with clients. Sale and purchase orders are submitted for the same prices and trades are executed at the market price. Some portion of electricity is also sold through Nord Pool AS in Lithuania to other market participants. Trades on the power exchange are executed at the market price.

The price of electricity sold under bilateral contacts is the market price, adjusted for variances depending on the electricity trading or consumption pattern of the customer and contractual arrangements (e.g., fixed on annual or monthly basis or agreed in daily delivery schedules).

Apart from importing electricity, the Group also purchases the electricity from other wholesalers of electricity in Lithuania and Latvia under bilateral contracts based on various pricing arrangements, as well as on Nord Pool AS in Lithuania, Latvia and Estonia.

The Group is also present in the electricity trading market in Poland, where it started its operations in 2014 and is involved in buying and selling electricity on the Polish Power Exchange.

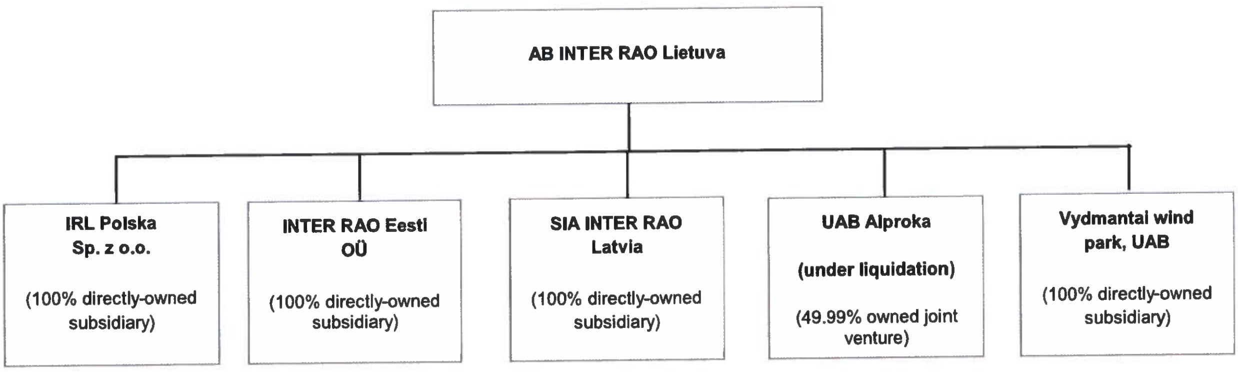
(all amounts are in EUR thousand unless otherwise stated)

The Group structure

As on 31st December 2018, the Group consisted of the Company and the following directly controlled subsidiaries and joint venture (hereinafter - the Group):

Company	Company code	Directly and indirectly held effective attributable interest	Equity as at 31st December 2018	Registration address	Activity
INTER RAO Eesti OÜ - subsidiary	11879805	100%	71	Peterburi tee 47, Tallinn, Estonia	Trade of electricity
SIA INTER RAO Latvia - subsidiary	40103268639	100%	(482)	76 Gustava Zemgala Ave., Riga, Latvia	Trade of electricity
IRL Polska Sp. z o.o. - subsidiary	0000436992	100%	1,652	Twarda 18, 00-105, Warsaw, Poland	Trade of electricity
UAB Alproka – joint venture (under liquidation)	125281684	49,99%	158	Verkių Str. 25C, Vilnius, Lithuania	Operations with real estate
Vydmantai Wind Park, UAB - subsidiary	302666616	100%	13,345	A.Tumėno Str. 4, Vilnius, Lithuania	Generation of electricity

The following chart sets out the Group' subsidiaries and interest in those subsidiaries, as well as the structure of the Group:



The Company and the Group does not have any branches or representative offices as of 31 December 2018.

(all amounts are in EUR thousand unless otherwise stated)

The Group history and development

2002	The Company was incorporated as UAB Energijos realizacijos centras.
2003	The Company received its license as independent electricity supplier with permission to export electricity.
	The Company signed sale-purchase agreements with INTER RAO UES and Lietuvos energija AB.
	The Company began electricity trading activities by exporting electricity to Russia and Belarus.
2004	Permission to import electricity was granted to the Company.
2005	The Company began importing electricity to Lithuania.
	RAO Nordic OY, a wholly owned subsidiary of INTER RAO UES, acquired 18% of the Company's share capital from UAB VB rizikos kapitalo valdymas.
2006	The Company acquired a 49.99% stake in UAB Alproka, a company engaged in real estate development in the Lithuanian seaside resort of Palanga.
2007	UAB Scaent Baltic acquired an 82% stake in the Company's share capital from Scaent Holdings Cooperatie UA and Bengtsbädd Förvaltning AB.
2008	RAO Nordic OY increased its shareholding in the Company by acquiring a 33% stake from UAB Scaent Baltic. The stake of RAO Nordic OY in the Company's share capital reaches 51%, while the stake of UAB Scaent Baltic decreases to 49%.
2009	The Company signed electricity sale-purchase agreements with the Belarusian company, Belenergo and the Latvian company, Latvenergo.
	Cooperation regarding the sale of electricity with the largest electricity consumer in the Baltic States, Orlen Lietuva, was established. Delivery was initiated in 2010.
	The Company changed its name to UAB INTER RAO Lietuva.
2010	The Company established two wholly-owned subsidiaries, one in Latvia (SIA INTER RAO Latvia) and the second in Estonia (INTER RAO Eesti OU).
	SIA INTER RAO Latvia received its license for electricity trading in Latvia.
2011	SIA INTER RAO Latvia begins electricity trading operations.
	The Company begins trading activities in the Estonian area of NordPool Spot.
	The Company established a subsidiary UAB IRL Wind and in the same year UAB IRL Wind acquired the wind park in Vydmantai.
	The Company begins operations in electricity generation from renewable energy sources by acquiring the wind park in Vydmantai.
	The Company signs an agreement with INTER RAO UES on potential export of electricity generated in Baltiiskaya NPP under construction in Kaliningrad Oblast.
2012	Decision on public offering and listing of the Company's shares on the Warsaw Stock Exchange was made.

	Business entity (IRL POLSKA sp. z o.o.) in Poland was established.
2013	AB INTER RAO Lietuva shareholders decided to distribute 27 million Litas as dividends.
	In July 2013, the Company has completed a merger of its two subsidiary companies UAB IRL Wind and Vydmantai wind park, UAB. Subsidiary companies were reorganised by merging UAB IRL Wind, which ceased its activities as a legal entity after the merger, into Vydmantai wind park, UAB which continued its activities after the merger.
	On 4th December 2013, the statutory capital of subsidiary company of AB INTER RAO Lietuva in Poland IRL Polska Sp.z o.o. was increased from PLN 2,000 thousand to PLN 10,000 thousand.
2014	On 3rd January 2014, the subsidiary company of AB INTER RAO Lietuva in Poland IRL Polska Sp.z o.o. was granted the license for trade in electricity in Poland. The term of the license is from 9th January 2014 till 9th January 2024.
	On 30th of April 2014, the General Annual Meeting of shareholders has adopted the decision to pay dividends to the shareholders of the Company in the amount of 13 million Litas.
	On 22nd of May 2014, IRL Polska Sp. z o.o. begins electricity trading operations.
2015	After Lithuania joined the euro zone, AB INTER RAO Lietuva shareholders fixed a nominal value of one share 0.29 EUR, share capital equal to 5.8 million EUR.
	AB INTER RAO Lietuva shareholders decided to distribute 11.2 million EUR as dividends.
2016	AB INTER RAO Lietuva shareholders decided to distribute 16.1 million EUR as dividends.
2017	On 30th of March 2017 by decision of Supervisory Council The Board of the Company was re-elected for a new office term of four years.
	On 28th of April 2017 new three members of the Supervisory Council, among them one independent member, were elected at the Annual General Meeting of Shareholders.
	AB INTER RAO Lietuva shareholders decided to distribute 10.2 million EUR as dividends.
2018	AB INTER RAO Lietuva shareholders decided to distribute 7.1 million EUR as dividends.
	On 6th of November 2018 the decision has been taken to liquidate company's subsidiary UAB „Alproka" which has successfully completed a real estate project and all real estate owned by UAB „Alproka" has been sold. Therefore, UAB „Alproka" was no longer carrying out any commercial activities.

Agreements with intermediaries of public trading in securities

Since 29th October 2012 the Company and UAB FMĮ Orion Securities (code 122033915), A. Tumėno str. 4, LT-01109 Vilnius, have an agreement on accounting of the Company's securities and services related to the accounting of securities.

Data about securities traded on regulated market

The following securities of the Company are included into the Main List of Warsaw stock exchange (symbol: IRL):

Types of shares	Number of shares	Nominal value (in EUR)	Total nominal value (in EUR)	Issue Code
Ordinary registered shares	20,000,000	0.29	5,800,000	LT0000128621

In December 2012, the initial public offering of the Company's ordinary shares was completed on the Warsaw Stock Exchange. The total oversubscription for the Company's ordinary shares exceeded 26%. Given the ordinary share offer price of PLN 24.17 the value of the offering exceeded PLN 96.7 million. The Company's ordinary shares were included into the Main list of the Warsaw Stock Exchange.

Securities of the Group's subsidiaries are not traded publicly.

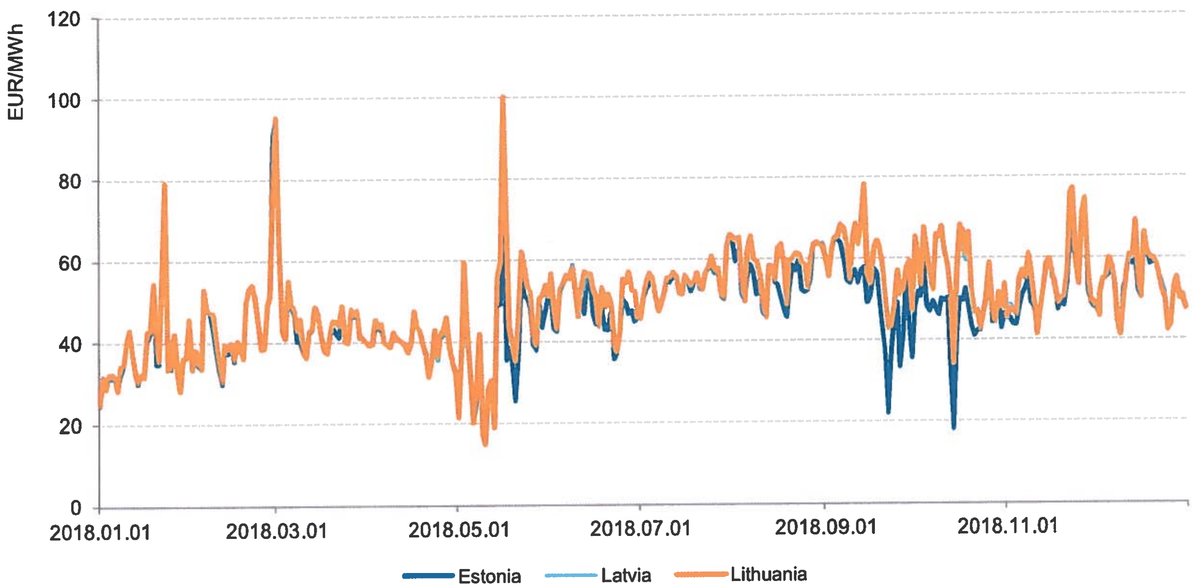
II. Financial Information

The Company's and the Group's sales in 2018 reached EUR 240.7 million and EUR 288.3 million. Sales revenue increased for the Company and for the Group by 69,74% and 60,70% respectively in comparison with the sales revenue in 2017.

Total revenue increased due to the higher amounts of electricity traded and the higher electricity prices in NordPool market. The increase in the amount of electricity traded was mainly influenced by increase in sales in Lithuanian market.

Company's sales revenue in 2018 increased by 69.74 per cent, compared to 2017 due to same reasons – increase in sales in Lithuanian market, the higher electricity prices in NordPool market and signed more contracts with clients.

Electricity price in NordPoolSpot exchange



During the period of 2018 the Company and the Group delivered electricity to all of its clients and fulfilled all of its contractual obligations of electricity sales at prices, agreed upon in the contracts. The Company and the Group fulfilled all of its contractual obligations to its Clients in 2018 without any delays and disturbances and remains as a trusted counterparty and reliable electricity supplier.

Due to the higher amount of electricity traded and higher prices in the regional markets, the Company's cost of sales increased by 72.43% and by 64.92% in the Group, comparing to the year 2017.

The Company's and the Group's EBITDA for the year 2018 was EUR 15.2 million and EUR 17.7 million. Company's EBITDA margin stayed at almost the same level and amounted to 6.32% in 2018 if compared to 6.35% in 2017 and the Group's – decreased from 7.55% in 2017 to 6.16% in 2018.

During 2018 the Company and the Group fulfilled all of its contractual obligations to the Clients, and Groups client's base during the course of 2018 increased: from 1.433 in 2017 to 1.453 in 2018. The Company and the Group improved relationships with the largest electricity customers in the region, further developed electricity trading operations in Poland and Latvia.

Wind park located in Vydmantai, owned by the Group over a year generated and sold 50 GWh, which was 21,32% less than in 2017. The decrease in electricity production was mainly caused by a worse wind conditions – the average wind speed in the area in 2018 was 5.86 m/s compared to 6.38 m/s during 2017.

The consolidated financial statements of the Group have been prepared according to the International Financial Reporting Standards as adopted by the European Union.

Key figures of IRL Group

Financial figures	**2018**	**2017**	**2016**
Sales [Revenues from contracts with customers] (EUR thousand)	**288,269**	**179,378**	**178,880**
Gross profit (EUR thousand)	22,716	18,354	18,943
Gross profit margin (%)	7.88%	10.23%	10.59%
Operating profit [profit from operations] (EUR thousand)	14.934	10,911	10,939
Operating profit margin (%)	5.18%	6.08%	6.12%
EBITDA (EUR thousand)	**17,743**	**13,537**	**15,066**
EBITDA profit margin (%)	6.16%	7.55%	8.42%
Net profit (EUR thousand)	11,454	8,974	9,256
Net profit margin (%)	3.97%	5.00%	5.17%
Number of shares (thousand)	20,000	20,000	20,000
Earnings per share (EUR)	0.57	0.45	0.46

Financial ratios	**2018**	**2017**	**2016**
Return on capital employed (%)	68%	41%	37%
Return on assets (%)	19%	19%	18%
Return on shareholders' equity (%)	66%	50%	49%
Gearing ratio	0.45	0.83	0.83
Net financial debt to equity	-0.74	0.54	0.45
Equity to assets ratio	0.28	0.37	0.37
Current ratio	1.02	1.12	1.25
Rate of turnover of assets (%)	21%	27%	29%

Gross profit margin – Gross profit / Sales

Operating profit margin – Operating profit / Sales

EBITDA profit margin – EBITDA / Sales

Profit before taxes margin – Profit before taxes / Sales

Net profit margin – Net profit / Sales

Earnings per shares – Net profit / Number of shares

Return on capital employed – EBIT / (Total assets – Current liabilities)

Return on assets – Net profit / Total assets

Return on equity – Net profit / Total shareholders' equity

Gearing ratio – Total debt / Total shareholders' equity

Net financial debt to equity – (Financial borrowings – Cash and cash equivalents) / Total equity

Equity to assets ratio – Total equity / Total assets

Current ratio – Current assets / Current liabilities

(all amounts are in EUR thousand unless otherwise stated)

Rate of turnover of assets – Total assets / Sales

EBITDA - Profit (loss) before income tax + Interest expenses + Depreciation and amortization + impairment

These performance indicators are used to determine Group's progress in achieving its strategic and operational goals, and also to compare Group's finances and performance against other businesses within the industry.

Revenue from contracts with customers/Sales

The total consolidated Group's sales revenue in 2018 was equal to EUR 288.3 million, a 60.40% more than in 2017. Total revenue increased due to the higher amount electricity traded and higher prices in the NordPool system if compared to the previous periods.

Sales revenues by operating segments, thous. EUR	2018	2017
Electricity purchases and sales	283,914	173,848
Electricity production and sales	4,356	5,530
Total	**288,269**	**179,378**

Group's revenue from sales of electricity in the 2018 amounted to EUR 283.9 million. Revenue from produced electricity sales accounted for EUR 4.4 million, which is a 21.24% less than the sales a year ago. The decrease in electricity production was mainly caused by the worse wind conditions in the area.

The tables below present data on the electricity trading activities of the Group for the 2018 and 2017 and the 4th quarter of 2018 and 2017, with a breakdown by each country for the periods indicated (S - sale, P - purchase).

	For 2018		**For 2017**	
	S	**P**	**S**	**P**
	GWh		*GWh*	
Lithuania*	5,315	62	3,698	404
Latvia	269	269	341	341
Estonia	269	376	322	435
Russia	52	4,415	92	3,131
Belarus	-	783	-	141
Poland	330	330	305	305
Total*	**6,235**	**6,235**	**4,758**	**4,758**

* Excluding equivalent trades on the power exchange

Differences between purchased and sold electricity total values is due to rounding

	For the 4th quarter of 2018		**For the 4th quarter of 2017**	
	S	**P**	**S**	**P**
	GWh		*GWh*	
Lithuania*	1,600	3	936	117
Latvia	57	57	88	88
Estonia	73	88	82	105
Russia	11	1,510	24	775
Belarus	-	83	-	45
Poland	109	109	64	64
Total*	**1,850**	**1,850**	**1,194**	**1,194**

* Excluding equivalent trades on the power exchange

The average annual electricity price in 2018 in Lithuanian Nord Pool Spot zone was equal to 50.00 EUR/MWh compared to 35.13 EUR/MWh in 2017, a 42.32% higher than in 2017.

Cost of sales

The Company's cost of purchase of electricity in 2018 increased by 72.59% and in the Group increased by 65.36% respectively if compared to 2017 and amounted to EUR 217.8 million and EUR 260.5 million. Cost of purchase of electricity increased due to increase of electricity prices in NordPool market and this item constituted 98.55% and 98.10 % of total cost of sales for the Company and for the Group respectively in 2018.

Transmission network service cost (*i.e.*, input fee) for the Company and for the Group increased due to increased electricity volumes traded. It amounted to EUR 3 million for both - the Company and the Group if compared to EUR 1.7 million a year ago.

Gross profit in 2018 increased over the year by 44.40% and amounted to EUR 19.7 million for the Company and for the Group increased by 23.77%, and amounted to EUR 22.7 million, if compared to EUR 13.6 million and EUR 18.4 million respectively in 2017. Gross profit margin in 2018 decreased to 8.19% for the Company and to 7.88% for the Group from 9.62% and 10.239% respectively in 2017, but stayed at the healthy levels.

General and administrative expenses

Total general and administrative expenses were higher of the Company and of the Group in 2018 than total general and administrative expenses a year ago. In the Company it increased by 1.84% and amounted to EUR 5.5 million and in the Group it increased by 4.55% and was equal to EUR 7.8 million. The most significant costs' groups within the general and administrative expenses in the Company and the Group were wages, depreciation and amortization, charity, electricity selling expenses.

The employment related expenses (wages, salaries and social security) for the Company and for the Group over the year increased by 8.93% and 5.64%.

Support (charity) related expenses for the Company and the Group in 2018 were approximately equal to the expenses for charity a year ago and amounted to EUR 1.14 million and EUR 1.17 million respectively (a 0.87% and 085% decrease respectively). The Group constantly supports various organizations and initiatives as a part of its business mission. Support, provided by the Group, is concentrated on three main areas: communities, education and culture/sports.

Earnings

Profit from operations for the Company and for the Group for year 2018 were equal to EUR 14.2 million and EUR 14.9 million, compared to the profit from operations of EUR 8.2 million and EUR 10.9 million in 2017. Operating profit margin for the Company and for the Group was equal to 5.89% and 5.18% compared to 5.80% and 6.08% a year ago.

Net result from financial and investing activities for the Company in 2018 was a EUR 0.4 million more than a year ago and amounted to EUR 0.51 million. In 2018 subsidiary Vydmantai wind park, UAB paid dividends (EUR 0.35 million). As in 2017 subsidiary did not distribute dividends. Net consolidated result from financial and investing activities for the Group increased by 55.13% compared to 2017 and amounted to EUR (0.2) million. Overall result for the Group from financial activities was mainly caused by increase in finance income – positive fair value change of derivatives not designated as hedging instruments (EUR 0.4 million).

As a result, profit before tax for the Company and for the Group in 2018 increased and amounted to EUR 14.7 million and EUR 14.8 million respectively.

The net profit of the Company and the Group in 2018 amounted to EUR 11.6 million and EUR 11.5 million respectively.

The net profit margins for the Company and for the Group in 2018 decreased and were equal to 4.82% and 3.97% (compared to 5.06% and 5.00% year ago).

Investments

During 2018 the Group has not made any significant investments.

Balance sheet and cash flow

During January-December 2018 total assets of the Company increased by 60.17% and of the Group increased by 27.48%. The most significant influence to the assets was caused by increase of cash and cash equivalents in the Company and in the Group.

Total non-current assets of the Company increased by 6.38% and of the Group decreased by 10.36%. The most significant change in assets in the Group was related to amortization of licenses held by subsidiary Vydmantai wind park as well as depreciation of wind power plant. Total non-current assets amounted to 26% of the total assets for the Company and to 36% of total assets for the Group.

During the year, shareholders' equity of the Company and of the Group decreased by 2.54% and 2.86% and amounted to 28% of the total equity and liabilities of the Company and to 28% of the total equity and liabilities of the Group. Decrease in equity was caused by dividends declared for the year 2017. Total dividends distributed in 2018 reached EUR 7.1 million.

At the end of December 2018, total amount of borrowings, including financial liabilities related to finance lease and bank financing, amounted to 7.8 million for the Group, if compared to previous year – a 47.76% decrease. The Company had no borrowings, including financial liabilities related to finance lease and bank financing at the end of December 2018 (EUR 3.8 million decrease if compared to the end of 2017). Cash, cash equivalents amounted to EUR 19.1 million for the Company and EUR 20.7 million for the Group.

Net cash flow from operating activities for the Company and for the Group in 2018 increased and amounted to EUR 26.7 million and EUR 30.2 million respectively (compared to EUR 5.1 million and EUR 9,6 million a year ago).

During 2018 net cash flow from investing and financing activities amounted to negative EUR (10.6) million for the Company and negative EUR (14.6) million for the Group (compared to negative EUR (7.7) million for the Company and to negative EUR (11.6) million for the Group in 2017). Negative cash flow from financing activities is mainly related to the loans repaid and paid out dividends.

Information about related party transactions

Parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group are as follows:

- PJSC Inter RAO (ultimate parent);
- RAO Nordic Oy (one of the shareholders);
- UAB Scaent Baltic (one of the shareholders);
- SIA INTER RAO Latvia (subsidiary);
- INTER RAO Eesti OÜ (subsidiary);
- IRL Polska Sp z o.o. (subsidiary);
- Vydmantai wind park, UAB (subsidiary);
- UAB Alproka (joint venture under liquidation);

  Other related parties include:
- UAB Scaent Baltic Group companies (the same shareholder);
- Other shareholders;
- Management.

Detailed information about related party transactions is provided in Note 26 of INTER RAO Lietuva, AB Financial Statements for the year ended 31st December 2018.

The management of the Company has created an appropriate controlling procedures in the Group that includes ethical behaviour guidelines, ensures competence in accordance with the duties of the staff, and a clear vision of powers and responsibilities; the requirements for reporting and verification intra-group procedures, their monitoring and supervision in order to response a proper and time manner.

To support an effective internal control system, the Company's management is assisted by internal auditors, periodically evaluating the effectiveness of this system. External auditor audits financial statements of the Company and the Group.

Other material information

No other material information need to be disclosed.

Recent events

No other material subsequent events occurred after the balance sheet date.

Research and development activities

There were no major research and development projects undertaken during 2018, except the on-going development and improvement of the Group provided services.

Risk management

The main risk factors associated with the activities of the Company are as follows:

- Changes in the regulatory environment.
- Changes in the price of electricity traded.
- Increase in price of imported electricity.
- Decrease in electricity demand.
- Failure to build or delay in building interconnections between electricity grids.
- Discontinuation or unfavourable changes in renewable energy support schemes.
- Decrease in volume of electricity generated by the wind park.
- Increased competition among independent electricity suppliers.
- Changes in currency exchange rates.

As of 31st December 2018 the total amount of borrowings of the Group amounted to EUR 7.8 million compared to EUR 14.9 million as of 31st December 2017.

As at 31st December 2018, the Group's fully owned subsidiary (Vydmantai wind park, UAB) had an interest rate swap agreement for purpose of future cash flow hedge. On 29th June 2012 the Group's company (IRL Wind, UAB) has concluded interest rate swap agreement for the period from 17th July 2012 to 17th October 2020. The Group's company pays a fixed interest rate at 1.65% and receives a floating interest rate at 6-month EURIBOR on a notional amount set in the agreement. After the reorganization of UAB IRL Wind and Vydmantai wind park, UAB was completed on 11th July 2013, all the assets and undertakings, including the interest rate swap agreement, of UAB IRL Wind were taken over by Vydmantai wind park, UAB. The notional amount of the transaction after reorganization was increased to EUR 23.3 million.

In 2016 the Company and the Group's fully owned subsidiary INTER RAO Eesti OÜ signed electricity derivative agreements for the purposes of future cash flow hedge. The derivative agreements are for 2017, 2018 and 2019 years.

The Group's and the Company's activities expose it to the following financial risks: market risk (including foreign exchange risk, and cash flow and interest rate risk), credit risk, liquidity risk. The Group's policy for treasury management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects of the financial performance of the Group.

The Company's financial risk management is carried out by the Company under policies approved by the Management Board. This unit identifies and evaluates financial risks in close co-operation with the Group's operating units. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

The Group's electricity trading is partially executed based on orders submitted by a team of traders on a daily basis in response to market conditions, upon consideration of the Group's contractual obligations and market demand. Electricity trading operations are executed using software provided by the electricity exchange (Nord Pool Spot AS) platform or platforms of clients/suppliers. In order to mitigate risks associated with electricity trading, the Group has introduced respective policies to supervise its traders' activity. Namely, each order for electricity purchase or sale is made by two employees: one employee inputs trading parameters, whereas the other (usually the commercial director) reviews and confirms them.

Apart from internal risk management procedures, trades made by the Group are checked by its counterparties, the power exchange and transmission system operators. Electricity trades made through Nord Pool Spot AS are checked by the power exchange itself for arithmetical accuracy and systematic errors, as well as for unusual activities. Furthermore, each day the Group is obliged to present to the transmission system operator its plan for deliveries of electricity for the following day. The transmission system operator checks whether the Group is able to deliver the planned volume of electricity and, if required, checks the availability of balancing services to be provided to the Group. Moreover, each day the Group is obliged to deliver to the Lithuanian transmission system operator plans for import and export of electricity from/to Russia or Belarus.

Regarding the management of credit risk, the Group is engaged in credit valuation and constant monitoring of its Clients. In such activities, the Group uses internally designed software which allows for the collection of information from Clients and prospective Clients, which is needed to evaluate Client's credit risk.

The Company implemented a process of internal controls. The process of the Company's internal controls implies control of business processes related to provision of electricity purchase and sale, and revenue assurance (customers' settlements and accounting, development and management of services, services provision), performance of IT systems (customer care and billing, infrastructure, network information, financial accounting, salary accounting, networks' interconnection) and the process of preparation of financial reports.

Plans and forecasts

The Company does not provide any specific plans or forecasts. The Group is engaged in electricity trading and plans expansion into other countries. The Group operates a wind park located in Vydmantai and plans to further develop activities in the renewable energy sector.

(all amounts are in EUR thousand unless otherwise stated)

III. Information about Share Capital and Shareholders

Share Capital

In the end of 2018 the share capital of the Company amounts to EUR 5,800,000 and consisted of 20,000,000 ordinary registered shares with a nominal value EUR 0.29 each. On 20th July 2012, the General Meeting adopted a resolution to increase the share capital from LTL 1,000,000 to LTL 20,000,000, and to divide the share capital into 20,000,000 ordinary registered shares with a nominal value of LTL 1 each. Such an increase in share capital was made by converting 1,000 ordinary registered shares of the Company with a nominal value of LTL 1,000 into 1,000,000 ordinary registered shares with a nominal value of LTL 1 each, and by issuing 19,000,000 new ordinary registered shares of the Company from the retained earnings of the Company. After Lithuania joined the euro zone, on 30th April 2015 AB INTER RAO Lietuva shareholders decided to fix a nominal value of one share 0.29 EUR and share capital equal to 5.8 million EUR. Ordinary registered shares of the Company (ISIN code LT0000128621) are listed on the Main List of Warsaw Stock Exchange (symbol: IRL).

Shareholders

As of 31st December 2018 the Company had 3 shareholders whose shares were accounted in Lithuanian securities depository system. The shares of remaining shareholders were accounted in Polish securities depository system. Due to prevailing private information protection laws in Poland, Polish National Depository for Securities is not able to provide the Company with information about number of Company's shareholders whose shares are accounted in Polish securities depository system.

Shareholders, holding more than 5% of the share capital and votes, as of 31st December 2018:

Name of shareholder	Number of ordinary registered shares owned by the shareholder	Share of the share capital, %	Share of votes given by the shares owned by the right of ownership, %
RAO Nordic OY *	10,200,000	51.0	51.0
UAB Scaent Baltic *	5,822,856	29.11	29.11
Other shareholders	3,977,144	19.89	19.89
Total	**20,000,000**	**100.00**	**100.00**

*In addition, according to Art 26 Part 1 Item 2 of the Law on Securities of the Republic of Lithuania (agreement on implementation of long term management policy of the issuer), UAB Scaent Baltic indirectly holds voting rights directly held of RAO Nordic Oy, code 1784937-7, address Tammasaarenkatu 1, FIN-00180, Helsinki, the Republic of Finland, and of RAO Nordic Oy indirectly holds votes of UAB Scaent Baltic under the agreement on implementation of long term management policy of the issuer between UAB Scaent Baltic and RAO Nordic Oy (hereinafter Shareholders' agreement).

As of 31st December 2018, 51% of the outstanding share capital of INTER RAO Lietuva, AB is held directly by RAO Nordic OY, a company organized and existing under the laws of the Republic of Finland, registration number 1784937-7, with its registered office at Tammasaarenkatu 1, FIN-00180, Helsinki, the Republic of Finland. RAO Nordic OY is a wholly-owned subsidiary of PJSC Inter RAO, a company incorporated under Russian law, listed on MICEX–RTS under ticker 'IRAO'. PJSC Inter RAO is a diversified energy holding managing assets in Russia, several countries of the CIS and the EU. Its operations comprise electric power and heat generation, international power trading and electric industry engineering.

(all amounts are in EUR thousand unless otherwise stated)

As of 31st December 2018, 29.11% of the outstanding share capital of the Company is held directly by UAB Scaent Baltic, a company organized and existing under the laws of the Republic of Lithuania, registration number 300661378, with its registered office at Jogailos str. 9, LT-01116, Vilnius, the Republic of Lithuania. UAB Scaent Baltic increased his stake in the Company by 0.11% on 13th June 2018, when acquired 22,856 units of Company shares from 100 % subsidiary UAB East Europe Investment Group.

As of 31st December 2018, free float represents 19.89% of the outstanding share capital.

As at 31st December 2018 the Company and its subsidiaries did not hold parent company shares.

Disclosure on acquisition of block of voting rights in the Company

On 7th January 2014, the Company made Announcement of the acquisition of block of voting right in the Company. As of 31st December 2018, the block of voting rights is held by:

Specification of voting rights held by Jonas Garbaravičius as of 31st December 2018					
	Number of shares (units)	Number of voting rights (units)		Number of voting rights (%)	
	Directly	Directly	Indirectly	Directly	Indirectly
Ordinary registered shares of AB INTER RAO Lietuva (ISIN code LT0000128621)	114,971	114,971	5,973,405	0.57	29.87

Specification of voting rights indirectly held by Jonas Garbaravičius as of 31st December 2018			
Name and other data about the person	The number of shares and voting rights held as of 31st December 2018		
	Number of shares (units)	Number of voting rights (units)	Number of voting rights (%)
	directly	directly	directly
Voting rights held according to the Art 24 Part 1 Item 6 of the Law on Securities of the Republic of Lithuania (voting rights held by the company controlled by Jonas Garbaravicius)			
JG Investment Management UAB, code 303049386, address A. Tumėno str. 4-38, Vilnius, the Republic of Lithuania	43,362	43,362	0.22
Živilė Garbaravičienė (spouse of member of Supervisory Council of the issuer Jonas Garbaravičius)	8,700	8,700	0.04
Voting rights held according to the Art 24 Part 2 of the Law on Securities of the Republic of Lithuania (voting rights held by other managers of the issuer)			
Vilma Juratė Balciuniene (spouse of the CEO of the issuer)	44,050	44,050	0.22
Vidas Cebatariunas (Management Board member of the issuer)	54,437	54,437	0.27
Voting rights held according to the Art 24 Part 1 Item 6 of the Law on Securities of the Republic of Lithuania (voting rights held by the company indirectly controlled by Garbaravicius family)			

(all amounts are in EUR thousand unless otherwise stated)

Specification of voting rights indirectly held by Jonas Garbaravičius as of 31st December 2018			
Name and other data about the person	The number of shares and voting rights held as of 31st December 2018		
	Number of shares (units)	Number of voting rights (units)	Number of voting rights (%)
	directly	directly	directly
UAB Scaent Baltic, code 300661378, address Jogailos str. 9, Vilnius, the Republic of Lithuania	5,822,856	5,822,856	29.11

In addition, according to Art 26 Part 1 Item 2 of the Law on Securities of the Republic of Lithuania (agreement on implementation of long term management policy of the issuer), Jonas Garbaravičius indirectly holds voting rights directly held of RAO Nordic Oy, code 1784937-7, address Tammasaarenkatu 1, FIN-00180, Helsinki, the Republic of Finland, which concluded the Shareholders' agreement.

Treasury shares

During the financial year of 2018, the Company has not purchased any treasury (own) stock. As of 31st December 2018, the Company and its subsidiaries do not hold any treasury stocks of the Company.

Acquisition of treasury shares

For an adoption of a resolution on the acquisition of its own shares, a qualified ¾ majority of votes of shareholders participating at the General Meeting is required. Under Lithuanian law, the Company may acquire its own shares if all of the following conditions are met: (i) the acquisition of its own shares occurs within a specified period (no longer than eighteen months) after the adoption of a resolution by the General Meeting which specifies the conditions, purpose and terms for the acquisition of its own shares, including the maximum number of shares to be acquired, the manner in which these shares may be acquired and the price range within which the shares may be acquired; (ii) the total nominal value of the shares redeemed or taken as collateral does not exceed one-tenth of the share capital; and (iii) after the acquisition of its own shares, the Company's equity does not fall below the sum of the paid share capital, mandatory reserve and the reserve for acquisition of own shares; (iv) consideration of redeemed shares are paid from the reserve for acquisition of its own shares which was formed by the Company; (v) acquired shares are fully paid; (vi) acquisition of its own shares by the Company ensures equal possibilities for all shareholders to sell their held shares to the Company. Shares that were acquired infringing the above listed requirements (i)-(iv) must be sold within twelve months from the acquisition of these shares. If the shares are not sold during this period, then the corresponding portion of the share capital of the Company must be annulled. Upon acquisition of its own shares, the Company has no right to exercise property and non-property rights conferred by such shares.

Shareholders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal. One ordinary registered share of the Company gives one vote in the General Meeting of Shareholders.

Shareholders' agreements

In accordance with the Shareholders' Agreement (the agreement between RAO Nordic OY and UAB Scaent Baltic), neither RAO Nordic OY, nor UAB Scaent Baltic had the right to sell or otherwise transfer its ordinary shares in the Company or any part thereof to any third party or create any other third party rights to the Shares or any part thereof, except upon receiving the prior written consent of RAO Nordic OY and UAB Scaent Baltic.

(all amounts are in EUR thousand unless otherwise stated)

Under the Shareholders' Agreement, RAO Nordic OY and UAB Scaent Baltic have agreed to vote their shares in order to elect four candidates nominated by RAO Nordic OY and one candidate nominated by UAB Scaent Baltic to the supervisory board. Under the Shareholders' Agreement, the shareholders undertook to cause the members of the supervisory board nominated by them to vote in order to elect two candidates nominated by UAB Scaent Baltic and three candidates nominated by RAO Nordic OY to the management board. Under the Shareholders' Agreement, the shareholders undertook to cause their nominated management board members to vote to elect a candidate nominated by UAB Scaent Baltic for CEO.

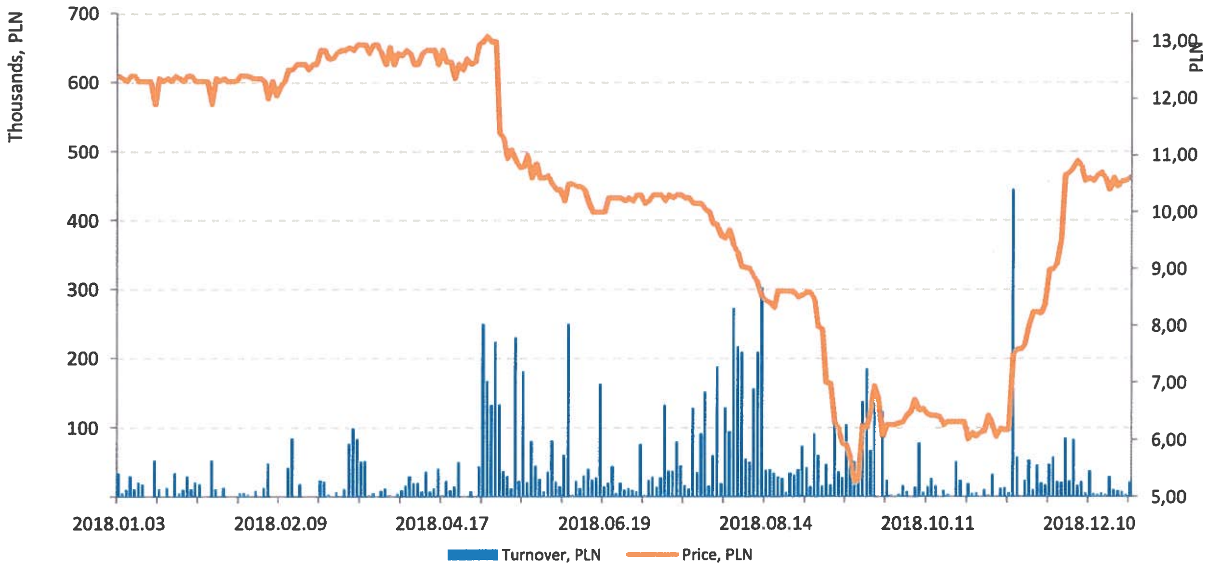
Information about trading in the Company's securities

Information about trading in the Company's shares on Warsaw stock exchange in 2012-2018:

Year	Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover
2012	PLN	25.75	26.64	25.75	26.64	26.23	2,862,401
2013	PLN	26.93	31.30	21.01	23.92	27.12	43,529,719
2014	PLN	23.97	24.00	14.50	19.69	19.32	15,620,599
2015	PLN	19.39	19.85	15.00	18.60	17.56	8,650,069
2016	PLN	18.79	20.50	12.80	15.80	16.60	31,008,579
2017	PLN	15.40	15.50	10.81	11.99	12.54	14,889,302
2018	PLN	12.40	13.10	5.24	10.60	10.18	10,317,618

The Company has market making agreement with UAB FMĮ ORION Securities. On 28 December 2015, additional agreement between UAB FMĮ ORION Securities and WSE came into force in order to satisfy new requirements of Liquidity Support Programme which participant the Company is.

IRL market capitalization as of 31st December 2018 reached PLN 212 million.



Dividends

According to the shareholders' agreement, RAO Nordic OY and UAB Scaent Baltic shall cause their respective nominees in the Supervisory Board and Management Board to support the distribution of no less than 70% of the relevant year net profit as dividends to shareholders.

RAO Nordic OY and UAB Scaent Baltic shall vote their ordinary shares at the General Meeting to ensure such distribution of the net profit, unless the Management Board, in acting in the best interests of the Company by approving the annual investment program, decides that the Company should make investments with the relevant year's net profit.

Dividend per share declared by the Company for the financial years ended 31 December 2017, 2016, 2015, 2014 and 2013 was equal to EUR 0,36, EUR 0.51, EUR 0.81, EUR 0.56, EUR 0.19 respectively.

Dividends for 2017, 2016, 2015, 2014 and 2013 amounted to EUR 7.1 million, EUR 10.2 million, EUR 16.1 million, EUR 11.2 million and EUR 3.77 million respectively.

	2017	**2016**	**2015**	**2014**	**2013**
Net profit, mEUR	7.18	10.18	16.12	11.20	1.16
Dividends declared, mEUR	7.1	10.2	16.1	11.2	3.77
Dividend pay-out ratio	99%	100%	100%	100%	325%

On 20th July 2012 RAO Nordic OY and UAB Scaent Baltic adopted resolution on the increase of the share capital from the Company's own funds from LTL 1,000,000 to LTL 20,000,000. As a consequence, the net profit for distribution for the financial year ending 31st December 2012, was reduced by the amount of the share capital increase. After Lithuania joined the euro zone in 2015, AB INTER RAO Lietuva shareholders fixed a nominal value of one share 0.29 EUR, share capital equal to 5.8 million EUR.

IV. Corporate Governance

The corporate bodies of the Company are as follows: General Shareholders Meeting, a collegial supervisory body - Supervisory Council, a collegial management body - Board, and single-person management body - Chief Executive Officer.

Members of Supervisory council

Evgeniya Popova
Chairman of the Supervisory Council
(term: 2016.12.29 - 2020.04.29)

Head of Operational Analysis and Trading Activity Forecasting Department at PJSC Inter RAO, Legal form/ *Public joint stock company* Registration code/ *1022302933630* Address/ *Bolshaya Pirogovskaya ulitsa, 27 building 2, Moscow, Russia, 119435*

Education:
Moscow State Institute of International Relations qualification - Finance and Credit, and MBA at Kingston University and Academy of National Economy under the Government of the Russian Federation

Career over the last five years:
2016 - present: Chairman of the Supervisory Council at INTER RAO Lietuva
2011 - present: Head of Operational Analysis and Trading Activity Forecasting Department at PJSC Inter RAO

Danielis Kličmanas
Member of the Supervisory Council at INTER RAO Lietuva
(term: 2017.04.28 - 2020.04.29)

CFO at Cgates Group, UAB Legal form/ Private limited liability company Registration code/ *303189324* Address/ *Ukmerges str. 120-1, Vilnius, Lithuania*

Education:
Master's degree at Vytautas Magnus University, qualification - Finance and Banking

Career over the last five years:
2017 - present: Member of the Supervisory Council at INTER RAO Lietuva
2015 - present: CFO at Cgates Group, UAB
2003 - 2014: Investment Manager of SEB bank, SEB Venture Capital

Jonas Garbaravičius
Member of the Supervisory Council at INTER RAO Lietuva
(term: 2016.04.29 - 2020.04.29)

Owner of JG Investment Management, UAB Legal form/ Private limited liability company Registration code/ *303049386* Address/ *A. Tumeno str. 4-38, Vilnius, Lithuania*

Education:
Vytautas Magnus University

Career over the last five years:
2018 - present: Counsellor of CEO at UAB Scaent Baltic, Legal form/ Private limited liability company Registration code/ *300661378* Address/ *Jogailos str. 9, Vilnius, Lithuania*
2017 - present: Member at YPO
2013 - present: Owner of JG Investment Management, UAB
2013 - present: Co Founder / Supporting Shareholder at Children Hospital Support Foundation (Vaikų Ligoninės Paramos Fondas)
2013 - present: Co Founder / Supporting Shareholder at Public Organization "Šiaurės Jeruzalė" (Nothern Jerusalem), project LitvakWorld.com
2012 - present: Board member at Vilnius City Opera, Legal form/ Public institution Registration code/302817107 Address/*Jogailos str. 9, Vilnius, Lithuania*
2012 - present: Member of the Supervisory Council at INTER RAO Lietuva
2008 - present: Counsellor of CEO at INTER RAO Lietuva
2011 - 2017: Member of the Management Board at Inter Green Renewables and Trading

Rytis Davidovičius
Member of the Supervisory Council
(term: 2016.04.29 - 2020.04.29)

Director of Business Development, Lewben Group, Legal form/ Private limited liability company Registration code/ *302299013* Address/ *A. Tumeno str. 4, Vilnius, Lithuania*

Education:
Bachelor degree, History and Political science at Vytautas Magnus University
Executive Education, Strategy at INSEAD
Licence of consultant, Bank of Lithuania

Career over the last five years:
2017- present: Director of Business Development, Lewben Group

2016 - present: Member of the Supervisory Council at INTER RAO Lietuva
2016- 2017: Director of Asia Pacific, Lewben Group;
2013- present: President, Lithuanian Rugby Federation, Legal form/Association Registration code/*190773236* Address/ *Zemaites str. 6, Vilnius, Lithuania*

2013 - 2016: CEO, JG Investment Management UAB, Lithuania;
2014 - 2016: Adviser of the Chairman of the Board, Orion Asset Management UAB, Lithuania.
2011 - 2014: CEO, Orion Asset Management UAB, Lithuania.

Vasily Kulikov
Member of the Supervisory Council
(term: 2016.04.29 - 2020.04.29)

Head of Risk management and internal control department PJSC Inter RAO Legal form/ *Public joint stock company* Registration code/ *1022302933630* Address/ *Bolshaya Pirogovskaya ulitsa, 27 building 2, Moscow, Russia, 119435*

Education:
Bachelor degree in Management at Non -State Educational Institution Modern University for the Humanities

Career over the last five years:
2016 - present: Member of the Supervisory Council at INTER RAO Lietuva
2014 - present: Head of Risk management and internal control department PJSC Inter RAO
2012 - 2014: Head of audit procurement activity department JSC Inter RAO Electric Power Plants
2010 - 2012: Head of audit procurement activity department JSC Inter RAO UES

Victor Kolotievskiy
Member of the Supervisory Council at INTER RAO Lietuva
(term: 2017.04.28 - 2020.04.29)

Head of European Operations of the Trading Unit of PJSC Inter RAO Legal form/ *Public joint stock company* Registration code/ *1022302933630* Address/ *Bolshaya Pirogovskaya ulitsa, 27 building 2, Moscow, Russia, 119435*

Education:
National Research University "Moscow Power Engineering Institute" qualification - Engineer-Manager
The Moscow University of Finance and Law, qualification - Lawyer

Career over the last five years:
2017 - present: Member of the Supervisory Council at INTER RAO Lietuva
2012- present: Head of European Operations of the Trading Unit of PJSC Inter RAO

Members of the Board

Alexandra Panina
Chairman of the Management Board at INTER RAO Lietuva
(term: 2018.07.06 -2021.03.30)
Member of the Management Board, Acting Head of the Trading Unit of PJSC Inter RAO Legal form/ *Public joint stock company* Registration code/ *1022302933630* Address/ *Bolshaya Pirogovskaya ulitsa, 27 building 2, Moscow, Russia, 119435*

Education:
Law faculty of Volgograd state University
State Academy of Innovation

Career over the last five years:
2018 - present: Chairman of the Management Board at INTER RAO Lietuva
2018 - present: Member of the Management Board, Interim Head of the Trading Division, PJSC Inter RAO
2018 - 2018: Deputy Head of Exports Division, Division Management Block, PJSC Inter RAO
2011 - 2018: Vice President of Marketing and Sales, LLC INTER RAO – Management of Electric Power Plants

Evgeny Miroshnichenko
Member of the Board at INTER RAO Lietuva
(term: 2017.06.06 -2021.03.30)
Member of the Management Board, Chief Financial Officer, PJSC Inter RAO, Legal form/ *Public joint stock company* Registration code/ *1022302933630* Address/ *Bolshaya Pirogovskaya ulitsa, 27 building 2, Moscow, Russia, 119435*

Education:
State University of Management

Career over the last five years:
2017 - present: Member of the Management Board at INTER RAO Lietuva
2017 - present: Member of the Management Board, Chief Financial Officer, PJSC Inter RAO
2010 - 2016: Director of Strategic Development with the Strategy and Investments Unit, Deputy Head of the Unit, Head of the Strategy Department of the Strategy and Investments Unit, PJSC Inter RAO

Evgeny Sarymsakov
Member of the Board
(term: 2018.07.16 - 2021.03.30)

Head of International Law Department of Legal Affairs Unit of PJSC Inter RAO, Legal form/ *Public joint stock company* Registration code/ *1022302933630* Address/ *Bolshaya Pirogovskaya ulitsa, 27 building 2, Moscow, Russia, 119435*

Education:
Master's Degree at Moscow State Institute of International Relations, qualification - International Law

Career over the last five years:
2018 – present: Member of the Management Board at INTER RAO Lietuva
2017 – 2018: Member of the Supervisory Council at INTER RAO Lietuva
2012 – present: Head of International Law Department of Legal Affairs Unit of PJSC Inter RAO

Giedrius Balčiūnas
Member of the Management Board at INTER RAO Lietuva
(term: 2017.03.30 -2021.03.30)
Director General (CEO) at INTER RAO Lietuva, Legal form/ Public limited liability company Registration code/ *126119913*
Address/ *A. Tumeno str. 4, Vilnius, Lithuania*

Career over the last five years:
2012 – present: Member of the Management Board at INTER RAO Lietuva
2010 – present: Member of the Management Board at INTER RAO Eesti OÜ, Legal form/ Private limited company Registration code/ *11879805* Address/ *Peterburi tee str. 47- 206, Tallinn city, Harju county, 11415, Estonia*

2006 – 2018: Member of the Management Board at Alproka
2003 – present: Director General (CEO) at INTER RAO Lietuva

Vidas Čebatariūnas
Member of the Management Board at INTER RAO Lietuva
(term: 2017.03.30 -2021.03.30)
Director of Commerce of AB INTER RAO Lietuva, Legal form/ Public limited liability company Registration code/ *126119913*
Address/ *A. Tumeno str. 4, Vilnius, Lithuania*

Education:
Master of Economic Analysis and Planning awarded by Vilnius University

Career over the last five years:
2012 - present: Member of the Management Board at IRL Polska, Legal form/ Private limited liability company Registration code/*458648, REGON number 14635508, NIP number 5252539965* Address/ *Twarda street 18, Warsaw, Poland*
2012 – present: Chairman of the Management Board at SIA INTER RAO Latvia, Legal form/ Limited liability company Registration code/ *40103268639* Address/ *Gustava Zemgala gatve 76, Riga, LV-1039, Latvia*
2010 – present: Member of the Management Board at INTER RAO Eesti OÜ, Legal form/ Private limited company Registration code/ *11879805* address/ *Peterburi tee str. 47- 206, Tallinn city, Harju county, 11415, Estonia*

(all amounts are in EUR thousand unless otherwise stated)

2010 - 2013: Member of the Management Board at Scaent Baltic
2007 - present: Member of the Management Board at INTER RAO Lietuva
2005 - present: Director of Commerce at INTER RAO Lietuva

CEO

The chief executive officer of the company is Giedrius Balčiūnas. Term in the position: 2003.05.21 - unlimited

Chief accountant

Chief accountant of the Company is Edita Vagonienė. Term in the position: 2012.10.01 - unlimited

Audit committee

The Company has formed an audit committee. On 6th of June 2017 the new members of committee were elected. The term of the Audit committee members will end in April 2020.

The members of the audit committee are the following: Mr Danielis Klicmanas, Mr Victor Kolotievskiy and Mr Vasily Kulikov. On 23rd March 2018 Mr. Danielis Klicmanas was elected Chairman of Audit committee.

Holdings in the Company by members of governing bodies, administration, and audit committee

Table below presents information about number of shares held in the Company by members of governing bodies, administration:

	Name, surname	**Directly held shares**		**Indirectly held shares**		**Total**	
		No. of shares	**% of total equity**	**No. of shares**	**% of total equity**	**No. of shares**	**% of total equity**
Supervisory board	Evgeniya Popova						
	Jonas Garbaravičius*	114,971	0.57%	5,973,405	29.87%	6,088,376	30.44%
	Rytis Davidovičius						
	Vasily Kulikov						
	Victor Kolotievskiy						
	Danielis Kličmanas						
Management board	Alexandra Panina						
	Evgeny Sarymsakov						
	Evgeny Miroshnichenko						
	Giedrius Balčiūnas		0.00%	44,050	0.22%	44,050	0.22%
	Vidas Cebatariūnas	54,437	0.27%		0.00%	54,437	0.27%
Administration	Giedrius Balčiūnas, CEO		0.00%	44,050	0.22%	44,050	0.22%
	Edita Vagonienė, chief accountant						

* - more specific information about shares held by Jonas Garbaravičius can be found on the section "Information about Share Capital and Shareholders" of this report.

(all amounts are in EUR thousand unless otherwise stated)

Remuneration of the members of the governing bodies, CEO and Chief accountant of the Company

During 2018 in total EUR 0.596 million was paid as salaries for the members of governing bodies and administration. Except for salaries, there have been no other sums transferred by the Company to the members of governing bodies and administration. More detailed information regarding remuneration is presented in the table below.

	Salaries, EUR
All members of the Supervisory Board collectively	159,472
Per member of the Supervisory Board on average	26,579
All members of the Board collectively	348,010
Per member of the Board on average	69,602
All members of administration (CEO and chief accountant)	236,949
Per member of administration	118,474

Important agreements

The Company has not entered into any material contracts which would come into validity, change, or expire after the change in the control of the Company.

The Company has not entered into any agreements with the members of the governing bodies, committees or employees regarding compensation in case members or employees resign, are fired without reasonable cause or their employment ceases due to change in control of the Company.

Harmful transactions

During the reporting period there have been no any transactions performed on behalf of the Company which were harmful (not complying with the goals of the Company, usual market practices, conflicting with the interests of shareholders etc.), had or could have in the future any negative influence for the activities or financial results of the Company.

According to the knowledge of the Company, during the reporting period there have been no any transactions made by the management, controlling shareholders or any other parties related to the Company which resulted in the private – corporate conflicts of interest.

Auditors

The Consolidated Financial Statements presented in the annual report were audited by UAB Ernst & Young Baltic (license No. 001335), with its seat at Subačiaus 7, LT-01127 Vilnius, Lithuania. Ms Inga Gudinaitė (auditor license No. 000366) is the signatory of the independent auditors' report on the Consolidated Financial Statements, a member of the Lithuanian Chamber of Auditors.

Social Responsibility

The Group constantly supports various organizations and initiatives as a part of its business mission. For the financial years ended 31st December 2018, 2017, 2016and 2015 the Group spent EUR 1.17, EUR 1.18 million, EUR 1.15 million, and EUR 1.17 million, respectively, on charity and other support. These costs represent Group's corporate values and culture to support and contribute to the overall social welfare. Support, provided by the Group, is concentrated on three areas: communities, education and culture, sports. While contributing to the social communities the Group donates to orphanages, hospitals, churches and various other charity and support organizations. When sponsoring culture and education spheres, the Group supports universities, schools, theatres, orchestras and various other organizations and events. Sports sponsorship started at the very beginning of the company's activities, the main attention is paid to basketball, soccer, car races, tennis and various other sports organizations and events.

Environment matters

The Group uses the most innovative means and the most modern technological processes that meet ecological standards. In addition, the Group owns wind park located in Vydmantai, which produces eco-friendly electricity.

V. Personnel

The table below presents the Company's data on the headcount of employees divided into categories, in the periods indicated.

	As of 31st December	
	2018	**2017**
Management	8	8
Sales Managers, including Traders	7	7
PR & Marketing Staff	1	1
Project managers	1	2
Technical staff	1	1
Office Staff	6	6
Total	**24**	**25**

The table below presents the Company's data on the employee related expenses divided into employee categories, for the period indicated.

	As of 31st December 2018	
	Headcount	**Expenses, EUR million**
Management	8	1.166
Sales Managers, including Traders	7	0.230
PR & Marketing Staff	1	0.039
Project managers	1	0.019
Technical staff	1	0.015
Office Staff	6	0.267
Total	**24**	**1.736**

On 31st December 2018 24 employees were employed in the Company. Company's personnel consisted of 8 managers and 16 specialists. Average annual employment expenses per employee in 2018 amounted to EUR 145 thousand for managers and EUR 36 thousand for specialists.

The table below presents the Group's data on the headcount of employees divided into categories, in the periods indicated.

	As of 31st December	
	2018	**2017**
Management	8	8
Sales Managers, including Traders	14	16
PR & Marketing Staff	1	1
Project managers	2	3
Technical staff	3	3
Office Staff	12	12
Total	**40**	**43**

The table below presents the Group's data on the employee related expenses divided into employee categories, for the period indicated.

	As of 31st December 2018	
	Headcount	**Expenses, EUR million**
Management	8	1.166
Sales Managers, including Traders	14	0.498
PR & Marketing Staff	1	0.039
Project managers	2	0.029
Technical staff	3	0.034
Office Staff	12	0.373
Total	**40**	**2.139**

Once grouped by broad categories, on 31st December 2018 Group's personnel consisted of 8 managers and 32 specialists. Average employment expenses per employee in 2018 amounted to EUR 145 thousand for managers and EUR 30 thousand for specialists.

As of 31st December 2018, 31 of the Group's employees were employed in Lithuania, 4 were employed in Latvia, 2 were employed in Estonia and 3 were employed in Poland.

The Group recognizes the importance of its staff in operating a stable and efficient business, and in providing the highest level of customer service and, accordingly, the Group strives to recruit, train, reward and retain only the best personnel. The Group usually introduces a remuneration system comprised of a standard gross salary, paid monthly, as well as bonuses, based on the discretionary decision of the Management.

There are no trade unions or workers councils registered in the Group Companies. There are no collective bargaining agreements concluded in the Group companies.

As of 31st December 2018, the Group's employees, except for Mr Jonas Garbaravičius, Mr Giedrius Balčiūnas, Mr Vidas Čebatariūnas, Mr Nerijus Veikša, Mr Paulius Vazniokas, Mr Edvardas Važgėla, Mr Edvardas Norkeliūnas and Ms Loreta Šertvytytė do not have any direct or indirect shareholdings in the Company, do not hold any stock options or other rights to the Shares and do not participate in any other way in the capital of the Company. There are no arrangements relating to such participation.

(all amounts are in EUR thousand unless otherwise stated)

Senior Management

In the opinion of the Company's management, except for members of the Company's corporate bodies, the following persons are the most important for the Group (herein after the "Senior Management"):

Name	Position/Function
Paulius Vazniokas	Economic Director
Aistė Vaitaitytė	Deputy CEO
Edvardas Važgėla	Electricity Trading Development Director
Nerijus Veikša	Legal Department Director
Saulius Garbaravičius	Chief Corporate Communication Officer

The business address of the members of the Senior Management is the Company's principal place of business at A. Tumėno 4, Vilnius, Lithuania.

Paulius Vazniokas has been the Economic Director of the Company since 2007. He currently holds several positions in the Group Companies. Since 2007, Mr Vazniokas has also sat on the management board of UAB Scaent Baltic. He also holds various positions in companies from UAB Scaent Baltic's group. Before joining the Group, Mr Vazniokas gained experience as: Head of Commercial Real Estate Department in Kaunas branch of Ober Haus UAB (2000-2002), Real Estate Project Manager and Director at AB Panevėžio keliai group (2002-2004), as well as a CFO and Head of Administration at UAB Realtus (2004-2007).

Mr Vazniokas holds Bachelor's degree in Business Administration from Vytautas Magnus University, which he obtained in 2000. In 2002 he obtained Master's degree in Finance and Banking from Vytautas Magnus University. Mr Vazniokas also obtained Ph. D. degree in Economics from Vytautas Magnus University in 2011. Since 2007, he has lectured at Vytautas Magnus University. Mr Vazniokas also studied law at Vilnius University (2002-2006).

Aistė Vaitaitytė has been the Deputy CEO of the Company since 1 June 2005. She has been associated with the Group since 2003 and, before becoming the Deputy CEO, Ms Vaitaityte held position of Head of Information Analysis and Transmission Division.

Ms Vaitaitytė holds Master's degree in Law and Management from Mykolas Romeris University, which she obtained in 2003. In 2000 Ms Vaitaitytė obtained Bachelor's degree in Social sciences from Lithuanian University of Educational Sciences.

Edvardas Važgėla has been the Electricity Trading Development Director of the Company since 2012. Before joining the Group, Mr Važgėla had, for over 20 years, been associated with Lietuvos energija AB, working as: Leading Engineer (1991-1993), Energy Marketing Services Manager (1993-1996), Energy Trading Centre Director (1996-2001), Electricity Market Department Director (2001-2009) and Wholesale Electricity Trading Department Director (2010-2011). Moreover, in years 1977-1991 Mr Važgėla worked for Lithuanian National Energy System, first as an Engineer Inspector and later as an Electrical Inspection Chief.

Mr Važgėla graduated from the Kaunas Polytechnic Institute in 1977 with specialization in electricity engineering. His education also includes various courses in the fields of electricity and energy.

Nerijus Veikša has been the Legal Department Director of the Company since 2007. His past professional experience includes posts of: Director at National Association of Business Administrators (2002-2003), Assistant General Director at Kauno termofikacinė elektrinė (2003-2006), lawyer at UAB Creditum (2007), General Director at UAB Scaent Baltic Energy (2007-2009), Member of the supervisory board at OMX Baltic Benchmark Fund and Member of the management board at UAB SC Baltic Media (2009-2012), Member of the management board at UAB Scaent Baltic (2013-2015).

Mr Veikša holds Master's degree in International Commercial Law from the Law Faculty of Vytautas Magnus University, which he obtained in 2002. In 1999, he also obtained Bachelor's degree in Business Administration from Vytautas Magnus University.

Saulius Garbaravičius has been Chief Corporate Communication Officer since 2013. Since 2013 Mr Garbaravičius is a Member of the Board at Oxygen Venture Capital, since 2014 he is a Member/Chairman of the Board at Orion Asset Management, UAB, since the year 2016 is CEO at Rigel Capital Partners Ltd and since 2016 is CEO at Onvestor Advisory Limited His past professional experience includes posts of: CEO at Orion Managing Partners B.V.. (2016-2018), Partner at CEE Resources&Investments LLP (2013-2014), Member of the Board at UAB "Scaent Baltic" (2007-2013), Chairmen of the Board at UAB "SC Baltic Media" (2008-2013), CEO at UAB "Franchise Media" (2008-2011), CEO at UAB "Intelligent Media" (2009-2010).

Mr Garbaravičius holds Bachelor's degree in Philosophy from Vytautas Magnus University.

VI. Statement on Corporate Governance

6.1. Statement on compliance with the BEST PRACTICE FOR WSE LISTED COMPANIES

- The Company hereby informs about the Company's partial non-compliance with the Best Practice for GPW Listed Companies 2016. The Best Practice for GPW Listed Companies 2016 can be found on the website dedicated to the corporate governance at the Warsaw Stock Exchange: www.corp-gov.gpw.pl and on the corporate website: www.interrao.lt in the section "For Investors".
- The Company acknowledges the importance of the good corporate governance and intends to apply Best Practice for GPW Listed Companies 2016 as wide as is practicable. However, due to, inter alia, differences between Polish and Lithuanian Corporate Law the Company will not comply with the following rules:
- I.R.2. according to which, if the Company pursues sponsorship, charity or other similar activities, then the Company should publish the information about the relevant policy. While the Company continuously supports sport, culture and education as well as social initiatives as a part of its business mission, it does not consider it practicable to adopt the relevant policy on its activity within these spheres.
- I.Z.1.3. and II.Z.1. according to which the Company must publish a chart showing the division of duties and responsibilities among members of the management board. Under Lithuanian Corporate Law, the management board functions and responsibilities are not required to be divided among management board members.
- I.Z.1.6. according to which information on the dates of corporate events leading to the acquisition of limitation of rights of a shareholder, information on the dates of publication of financial reports and other events relevant to investors must be provided in the Company's website. The Company considers providing such information to investors.
- I.Z.1.11. according to which the Company should publish on its website information about the content of the Company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule. According to Lithuanian law, the audit firm is selected by the annual general meeting of the Company's shareholders (the "Annual General Meeting") to perform the audit of annual financial statements. The Supervisory Board, the Management Board and the shareholders having at least 1/20 of votes may at any time prior to or during the Annual General Meeting suggest in writing or by means of electronic communication the audit firm, therefore such rule is not required and the Company has not adopted any rules regarding the issue.
- I.Z.1.14. according to which the Company should publish on its website materials provided to the general meeting (also II.Z.10 according to which the Supervisory Board prepares and presents to the General Meeting a report and assessment of the Company's standing, including an evaluation of the internal control, risk management and compliance systems and the internal audit functions and II.Z.11 according to which the Supervisory Board should issue opinions on issues decided by the General Meeting). The Company only partially complies with this principle, as according to Lithuanian law, the Supervisory Board is not required to draw up such an assessment or report or issue such opinions.
- I.Z.1.15. according to which information about the company's diversity policy applicable to the governing bodies and key managers should be publish on its website. Even though there is no such policy in the Company established, the Company puts its best efforts to comply with general principals. Also a diverse among others in terms of gender is ensured as currently, there are two women in governing bodies of the Company, Mrs Alexandra Panina, is the chairwoman of the Management Board and Ms Evgeniya Popova on 29 April 2016 was elected to Supervisory Board of the Company and she is the chairwoman of the Supervisory Board.
- II.Z.3 and II.Z.4, II.Z.7 and II.Z.8 according to which at least two members of the Supervisory Board and the chair of the audit committee should meet the criteria of being independent from the Company. As of the date of this report a member of the Supervisory Board and a Chairman of the Audit Committee Mr Danielis Kličmanas meets criteria of being independent. The Company is putting its best efforts to comply with this principle.
- III.Z.1, III.Z.2, III.Z.3, III.Z.4, III.Z.5 and III Z.6 according to which the management board of the company should be responsible for implementation and maintenance of efficient internal control, risk management, compliance systems and internal audit functions and establish rules applicable to implementation of these functions. Under Lithuanian Corporate Law, the management board is not responsible for these functions and no separate units have to be established in the company for this purpose. The Audit Committee is established in the Company which supervises and considers accounting, internal control and risk management, as well as auditing activities of the Company, performs an independent and unbiased supervision of the audit.

- IV.R.2. and IV.Z.2 (also I.Z.1.16) according to which the Company should enable its shareholders to participate in a General Meeting using electronic communication means through real-life broadcast of General Meetings and real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting and enable its shareholders to exercise the voting right during a General Meeting either in person or through a plenipotentiary. The Company does not enable participation in the General Meeting by using electronic communication means through real-life broadcast and real-time bilateral communication. However, the Company does not exclude that such means will be adopted in the future. Also the Company does not comply with I.Z.1.20 according to which the Company should make audio or video recording of a general meetings public as no such recordings are required under Lithuanian Corporate Law.
- V.Z.5. according to which the Supervisory Board should approve a significant transaction/agreement with a shareholder who holds at least 5% of the total vote in the company or with related party at the request of the Company's Management Board. In accordance with Lithuanian Corporate Law, the Supervisory Board is not entitled to approve any decisions of the Management Board and approve transactions.
- VI Section according to which the Company should have a remuneration policy and comply with the rules of defining and implementing the policy as described therein. The Company has not adopted such policy, since the Company's Group is developing and the number of employees and members of management do not justify implementation of a complex set of rules.

6.2. Description of the procedures of the General Meeting and its main powers and the rights of the shareholders and procedures of their execution

6.2.1. Procedures of the General Meeting

The General Meeting is the supreme corporate body of the Company. Procedures and powers of the General Meeting of Shareholders are regulated in the Articles of Association and specified in the Lithuanian Company Law.

The Company must hold at least one Annual General Meeting within four months of the end of the financial year. The Annual General Meeting, among other things, is entitled to resolve important corporate matters, such as any amendments to the Articles of Association, any increase and reduction of the share capital of the Company, election and removal of members of the Supervisory Board, selection and removal of the audit firm, approval of the annual financial statements and interim financial statements, adoption of a decision on the distribution of profit, dissolution, merger or transformation of the Company, and certain other matters.

The right of initiative to convene the General Meeting is vested in the Supervisory Board, the Management Board and any shareholders holding at least 1/10 of all votes.

The agenda of the General Meeting shall be prepared by the Management Board or CEO (if the General Meeting is convened by him/her). The General Meeting shall have no right to adopt decisions on issues not announced in the agenda, except when all shareholders with voting rights participate in the General Meeting and no one of them has voted in writing.

The agenda of the General Meeting may be supplemented based on suggestions of the Supervisory Board, the Management Board and any shareholder holding at least 1/20 of all votes, as long as the suggestion is received not later than 14 calendar days prior to the General Meeting. Such suggestion shall be submitted in writing or by means of electronic communication, together with draft decisions, or when no decisions must be adopted, explanations on each of the suggested agenda items shall be submitted.

Shareholders have the right to ask questions regarding items on the agenda of the General Meeting in advance. Under Lithuanian law, the Company is obliged to answer these questions before the General Meeting, provided that the questions were received by the Company not later than 3 business days prior to the General Meeting. If several questions of identical content are submitted, the Company may respond with a single answer.

If the General Meeting is not held due to absence of a quorum (shareholders that have more than half of all votes and participate at the General Meeting constitute a quorum), a repeat General Meeting shall be convened not earlier than in 14 calendar days, and not later than 21 calendar days following the failed General Meeting. The shareholders shall be informed of the convening of the repeat General Meeting in the same manner as the failed General Meeting, but not later than 14 calendar days prior to the repeat General Meeting.

6.2.2. Voting at the General Meeting

Each ordinary share of the Company confers one vote at the General Meeting. Participation and voting in the General Meeting or the repeat General Meeting shall be reserved only for those who are shareholders on the record date, *i.e.* those who are shareholders at the end of the fifth business day prior to the General Meeting or prior to the repeat General Meeting.

Those authorised by the shareholders and holding a power of attorney issued by means of electronic communication to an individual or a company to participate and vote on his/her behalf at the General Meeting may attend and vote at the General Meeting. Persons with whom an agreement on assignment of voting rights has been concluded may attend and vote at the General Meeting if a shareholder informs the CEO of the Company of any transfer of voting rights by providing copies of the respective agreement and (or) authorization. Under the Articles of Association such document must be provided to the Company within 7 calendar days of the signing of the respective document.

Anyone attending the General Meeting and entitled to vote must present a document which is a proof of his/her identity. Anyone who is not a shareholder must additionally present a document proving his/her right to vote at the General Meeting.

In addition, shareholders may vote in advance of the General Meeting by filling in written general voting ballots. Shareholders that have voted in advance shall be deemed as participating in the General Meeting and their votes will be counted when establishing the quorum and voting results. If the shareholder so requests, the Company, no later than 10 days before the General Meeting, must dispatch a general ballot paper by registered mail or present this against signature, free of charge. The general ballot paper must also be available on the Company's website (www.interrao.lt) no later than 21 days before the General Meeting.

The General Meeting shall be deemed to have taken place and will be able to adopt decisions if the shareholders holding more than half of all votes of the Company participate in the General Meeting. If the required quorum is not present, the General Meeting shall be deemed to have failed to take place and a repeat General Meeting shall be convened. A repeat General Meeting shall be held based on the agenda of the failed General Meeting and shall not be subject to quorum requirements. General voting ballots of a failed General Meeting will be valid in a repeat General Meeting.

All shareholders participating in the General Meeting have the right to vote and ask questions during the General Meeting. The right to participate and to speak at the General Meeting shall also be held by the members of the Supervisory Board, Management Board, CEO, the General Meeting inspector and the auditor that prepared the conclusion and the report.

The Company must record the voting results for each decision adopted at the General Meeting. The shareholders at the General Meeting shall elect the General Meeting inspector who determines the total number of votes carried by the shares issued by the Company on the day of the General Meeting, the number of valid and invalid general ballot papers filled-in and submitted in advance, the number of valid and invalid proxies submitted, the number of submitted agreements on the disposal of voting rights, the number of voting shares represented at the General Meeting (in person, through proxies, through persons under agreements on the disposal of voting rights, under the general ballot papers filled-in in advance, under other documents entitling to vote), whether the General Meeting has a quorum, and the results of voting at the General Meeting.

Not later than within 7 days following the General Meeting, the Company must post the voting results of the General Meeting on its website. Shareholders or their representatives that have participated in the General Meeting may become familiar with the meeting minutes, and within 3 calendar days after becoming familiar (but not later than within 10 calendar days of the General Meeting), may submit their comments and opinions in writing.

6.2.3. Electing members of the Supervisory Board

The members of the Supervisory Board are elected by the General Meeting. Under the Lithuanian law candidates for a supervisory board may be proposed by the Management Board and a shareholder(s) holding shares representing at least 5% of votes. When electing Supervisory Board members, each shareholder has a number of votes equal to the number of votes carried by the shares of the Company he/she owns, multiplied by the number of members of the Supervisory Board being elected. A shareholder can distribute votes at his/her own discretion, granting them to one or several candidates. The candidate who receives the highest number of votes prevails. The chairman of the Supervisory Board is elected by the members of the Supervisory Board. If the number of candidates who received an equal number of votes exceeds the number of vacancies on the Supervisory Board, a repeat vote shall be held in which each shareholder may vote only for one of the candidates who received the equal number of votes.

The General Meeting may remove the entire Supervisory Board or its individual members before the expiry of their term of office. Such decision requires a simple majority of votes. If an individual member is removed, resigns or discontinues the performance of his/her duties for other reasons, and the shareholders whose shares carry at least 1/10 of all votes object to the election of individual members of the Supervisory Board, then the entire Supervisory Board shall lose its powers and shall be subject to election. Where individual members of the Supervisory Board are elected, they shall be elected only until the expiry of the term of office of the current Supervisory Board.

Under the shareholders' agreement entered by the principal shareholder of the Company (the Shareholders' Agreement), at all times during the validity of the Shareholders' Agreement, the principal shareholders will vote their shares in order to elect five candidates nominated by the principal shareholders. In addition, the principal shareholders will vote their shares to appoint two independent members proposed by the principal shareholder, since under Lithuanian law, candidates for a Supervisory Board may be proposed by the Management Board and any shareholder(s) holding shares representing at least 5% of votes.

6.2.4. Approval of annual accounts

Annual financial statements and an annual report are prepared by the CEO, assessed by the Management Board and commented on by the Supervisory Board. The Annual General Meeting receives annual financial statements and the annual report, together with comments and proposals of the Supervisory Board, and adopts a decision to approve the audited annual financial statements. The same procedure, *mutatis mutandis,* applies to the approval of interim accounts of the Company if the General Meeting makes a decision to distribute dividends to the shareholders of the Company for a period shorter than the financial year.

The annual financial statements, auditor's report, annual report and other information required under Lithuanian law must be made available to shareholders for review from the date of the notice on convening the Annual General Meeting.

6.2.5. Distribution of profit

Pursuant to the Law on Companies of the Republic of Lithuania, the Company may distribute its profit or assets to shareholders only (i) by paying dividend; (ii) in case of liquidation of the Company; or (iii) in case of reduction of the share capital of the Company.

Decision to distribute profits of the Company, as well as to establish, use, decrease and/or cancel the reserves, is adopted in the General Meeting by the qualified ¾ majority of votes of shareholders participating in the General Meeting.

The General Meeting may adopt a decision to declare annual and interim dividends by the qualified ¾ majority of votes of shareholders participating at the General Meeting. The Company is allowed to pay dividends (i) only to the extent that the Company's equity exceeds the aggregate nominal value of all of the Company's shares plus the amount of any reserves (mandatory reserve, the revaluation reserve and the reserve for acquisition of own shares) that the Company is required to, or is allowed to, maintain pursuant to the Articles of Association or the provisions of applicable laws; (ii) only if the Company has no outstanding non-performed obligations with due terms before the adoption of the decision to pay out dividends, and (iii) only if the Company during the respective financial year or interim financial period has made profit.

Further, payment of interim dividends may be initiated by the proposal of shareholders, holding at least 1/3 of all votes of the Company. In addition to the above mentioned conditions, interim dividends are allowed to be paid only if (i) financial statements for the respective period shorter than the financial year are audited and approved by the General Meeting; (ii) profit was generated during the respective period that is shorter than the financial year; (iii) the amount of the paid-out interim dividends do not exceed the following: a) profit generated during the respective period that is shorter than the financial year, plus undistributed profit (accumulated during all earlier years) present at the end of the previous financial year, minus part of the profit generated during the respective period that is shorter than the financial year that must be allocated to reserves under the Articles of Association or the Law on Companies (*i.e.* if the mandatory reserve is below 1/10 of the registered share capital, deductions must be made to it of not less than 1/20 of the net profit of the respective financial year); (iv) the Company has no outstanding obligations which became due before adoption of the decision to pay out interim dividends and after the interim dividends are paid, the Company will remain able to meet its obligations for the current financial year.

Dividends are paid to persons who, at the end of the rights record date (i.e. the tenth business day following the day the decision to distribute dividends was adopted by the General Meeting), were shareholders of the Company or were otherwise entitled to receive dividends. Each shareholder is entitled to dividends *pro rata* to the number of shares held by such shareholder. The Company must pay dividends within one month of the date of resolution adopted by the General Meeting.

6.2.6. Issuance of shares

The Company may issue new shares pursuant to a resolution of the General Meeting adopted by qualified ¾ majority of votes of shareholders participating at the General Meeting; no special quorum is required. A qualified ¾ majority of votes of shareholders participating at the General Meeting is also required to issue convertible bonds. The decision of the General Meeting to issue new shares shall be deemed void in case of failure to submit the amended Articles of Association to the Register of Legal Entities of the Republic of Lithuania within six months of the day on which the General Meeting adopted the decision. If this deadline is not met, the contributions for the subscribed shares must immediately be returned, without any deductions at the written request of the subscriber.

The Company's share capital may be increased from the Company's own funds by issuing new shares. In such case the shareholders are entitled to receive new additional shares for no consideration in proportion to the nominal value of the shares owned by them on the rights record day (*i.e.* the tenth business day following the day of the decision of the General Meeting to increase the Company's share capital).

A qualified ¾ majority of votes of shareholders participating at the General Meeting is also required to establish the class, number, nominal value, minimal issue price of shares in the Company, as well as to convert the Company's shares of one class into another class and related procedures.

6.2.7. Amendment of the Articles of Association

The General Meeting can resolve to amend the Articles of Association by a qualified ¾ majority of votes of shareholders participating at the General Meeting. The amended Articles of Association shall come into force on the day of the registration of the Articles of Association with the Register of Legal Entities of the Republic of Lithuania. Once the amendments to the Articles of Association are entered in the companies register, the Company publishes a relevant current report.

6.2.8. The rights of the shareholders and procedures of their execution

In addition to the rights described above, the shareholders of the Company also enjoy other rights established by the Lithuanian Company Law or other legal acts of the Republic of Lithuania.

6.2.9. Right to transfer the shares

According to Lithuanian law, the Company is prohibited from introducing any additional restrictions of the shareholders right to dispose of fully paid shares to another person. There are no restrictions on transfer of the shares, other than those described in applicable laws or agreed between the shareholders of the Company.

6.2.10. Pre-emptive right

Each shareholder holding the shares at the end of the rights record date (*i.e.* the tenth business day following the day of the decision of the General Meeting to increase the Company's share capital) has a pre-emptive right with respect to all new share issuances or convertible bonds, in proportion to the number of shares held by such shareholder.

Pre-emptive rights may be withdrawn by a decision of the General Meeting taken by a qualified ¾ majority of votes of shareholders participating at the General Meeting. The right of pre-emption to acquire new shares being issued by the Company or the convertible bonds may only be withdrawn for all shareholders of the Company. A written proposal to withdraw the pre-emptive right must be given by the Management Board, indicating reasons and causes for such withdrawal, as well as persons who would be offered to acquire the newly issued securities. The General Meeting, taking a decision on withdrawal of the pre-emptive right, must justify the necessity to withdraw such right and specify the person or persons who are given the right to subscribe to newly issued securities or convertible bonds, save for cases when the pre-emptive right is withdrawn because of the intention to make a public offering of securities of the Company under the procedure set by the Lithuanian Law on Securities.

6.2.11. Right to receive Information

At the written request of any shareholder, the Company shall, no later than within 7 days from the day of receipt of such request, submit to the shareholder to become familiar with and (or) present copies of the following documents: the Articles of Association of the Company, annual and interim financial statements, annual and interim reports of the Company, audit statements and reports, minutes of the General Meeting and other documents containing decisions of the General Meeting, lists of the shareholders, other documents of the Company which must be public by law of the Republic of Lithuania as long as they do not contain any commercial (industrial) secret or confidential information of the Company. Upon submission to the Company of a written undertaking in the form established by the Company not to disclose the commercial (industrial) secret and confidential information, a shareholder or group of shareholders holding or possessing more than half of all the shares shall have the right to become familiar with all documents of the Company. The Company has the right to refuse to provide to the shareholder present copies of the documents if it is unable to determine the identity of the shareholder. Refusal to provide to the shareholder with present documents shall be executed by the Company in writing at the shareholder's request. Disputes regarding the right of the shareholder to information shall be settled in court.

The Company's documents and other information or copies thereof shall be presented to the shareholders at the registered office of the Company. The Company's documents, their copies and other information shall be presented to the shareholders, free of charge.

6.2.12. Inquiry right

One or more shareholders, individually or jointly representing at least 1/10 of the share capital of the Company, may assert their inquiry right. This means that they may appeal to the court in writing to appoint one or more experts to conduct an inquiry of the activity and affairs of the Company, *i.e.* whether the Company or the Company's corporate bodies or their members acted in the proper manner.

In the event of improper performance of the activity, the following sanctions may be imposed by the court after evaluating the findings reported by the appointed experts: (i) revocation of the resolutions taken by the corporate bodies; (ii) temporary suspension of the powers of the members of the corporate bodies or exclusion of a person from the corporate body; (iii) appointment of provisional members of corporate bodies; (iv) authorisation of non-implementation of certain provisions of incorporation documents; (v) obligation to make amendments to certain provisions of incorporation documents; (vi) transferral to another person of the member's right of the corporate body to vote; (vii) obligation of the Company to take or not take certain actions; and (viii) liquidation of the Company and appointment of a liquidator.

6.3. Personal composition and procedures of the Company's Management and Supervisory Boards and its committees

Rules of conduct of the Supervisory Board, its committees and the Management Board are regulated in the Articles of Association of the Company and the Regulations of work of the Supervisory Board, its committees and the Supervisory Board, respectively.

6.3.1. Management Board

The Company's Management Board consists of five board members, including the chairman of the Management Board. Under Lithuanian law, the Management Board may act if at least 2/3 of the number of members established in the Articles of Association are appointed and participate in the Management Board activities. Under the Articles of Association, the members are appointed for a term of four years. Each member may be reappointed. The Supervisory Board elects the Board members by a majority of votes of the members who attended the Supervisory Board's meeting and those who voted in advance. The chairman of the Management Board is elected by the Management Board. The Supervisory Board may recall the entire Management Board or its individual members before the expiry of the term of their office if at least 2/3 of the Supervisory Board members present at the meeting vote for such a decision. The Management Board is responsible for the strategic direction of the Company under the supervision of the Supervisory Board. Under the Articles of Association, all resolutions of the Management Board must, depending on the type of decision, be adopted either by a simple majority of the votes cast, or unanimously.

The following decisions must be adopted unanimously (defined as all members of the Management Board vote for the adoption of the decision): (i) to approve and amend the by-laws of the Management Board; (ii) election and removal of the CEO, establishment of his/her salary and other employment conditions, to provide him/her incentives and impose penalties; approval of the by-laws of the CEO; (iii) approval of the business strategy of the Company; (iv) approval of the management structure and positions of the Company; (v) becoming an incorporator or member of other legal entities and acquisition of shares or part of capital in other legal entities; (vi) establishing branches and representative offices of the Company, approval of their regulations and nomination of their managers; (vii) investing, transferring of or leasing the tangible long-term assets, the book value of which exceeds 1/20 of the authorised share capital of the Company (calculated individually for each type of transaction); (viii) pledging or mortgaging the tangible long-term assets, the book value of which exceeds 1/20 of the authorised share capital of the Company (calculated for the total amount of transactions); (ix) granting surety or guarantee for the discharge of obligations of third persons, the amount of which exceeds 1/20 of the authorised share capital of the Company; (x) acquiring tangible long-term assets, the price of which exceeds 1/20 of the authorised share capital of the Company; (xi) approval, amendment or termination of the transactions between the Company and persons related to shareholders (except for transactions regarding the sale or purchase of electricity and/or transactions that are included in the annual investment program or budget approved by the Management Board); (xii) approval or amendment of the annual budget of the Company; (xiii) adopting decisions on issuance of debentures; (xiv) approval of transactions which are outside the scope of an annual investment program approved by the Management Board and investments exceeding EUR 1.5 million; (xv) any decisions related to the exercising of the shareholder's rights or obligations in any controlled legal entity of the Company, including (without limitation) voting in the general meetings of shareholders, nomination of the candidates to the governing bodies etc.; (xvi) making transactions or actions for sale or other transfer of the shares, capital or any other form of the membership interest (including any rights carried thereby) held by the Company in any legal entity; (xvii) decision of any other issue attributed to the competence of the Management Board by the laws, by the decisions of the General Meeting and by the Articles of Association; (xviii) approval of the annual investment program of the Company; and (xix) approval of transactions whereby loans, credits or similar financial arrangements to be obtained by the Company or whereby loans, credits or similar financial arrangements to be extended by the Company.

The term of office of the Management Board shall commence after the closing of the Meeting of the Supervisory Board at which it was elected. The Management Board shall perform its functions for a term of four years or until election and commencement of functioning of a new Management Board, but no longer than until the annual General Meeting to be held in the year at the end of the term of office of the Management Board. As at the date of the Report, the Management Board is composed of five members.

6.3.2. Supervisory Board

The Supervisory Board consists of seven members, including the chairman. Under Lithuanian law, the Supervisory Board may act if at least half of the number of members established in the Articles of Association are appointed and participate in Supervisory Board activities. The members of the Supervisory Board are elected by the General Meeting. The General Meeting may also remove the entire Supervisory Board or its individual members before the expiry of their term of office.

The Supervisory Board is responsible for supervising the activities of the Management Board and the CEO. The Supervisory Board may adopt decisions, and its meetings are considered to have been validly held only if more than half of its members are present, or represented during such a meeting. The members of the Supervisory Board who have voted in advance shall also be considered to have attended the meeting. Each member of the Supervisory Board is entitled to one vote.

Under the Articles of Association, the members of the Supervisory Board are elected for a term of four years by the General Meeting. The Supervisory Board commences its activities after the closing of the General Meeting which elected the Supervisory Board and shall perform its functions for a period of four years or until a new Supervisory Board is elected, but not for longer than the date of the annual General Meeting to be held during the final year of the term of office of the Supervisory Board.

The Supervisory Board shall have all powers and rights provided for by the laws and these Articles of Association, including: (i) to approval and amendment of by-laws of Supervisory Board; (ii) election of members of the Management Board and removal from the office; (iii) supervision of activities of the Management Board and CEO; (iv) submission of comments and proposals to the General Meeting on the Company's operating strategy, annual financial statements, draft of profit (loss) appropriation and the annual report of the Company, as well as the activities of the Management Board and CEO; (v) submission of comments and proposals to the General Meeting on draft decision of allocation of dividends for any period shorter than the financial year, and for that purpose composed interim financial statements and annual report; (vi) submission of proposals to the Management Board and CEO to revoke any decisions which are in conflict with the laws, other legal acts, the Articles of Association or decisions of the General Meeting; (vii) request the Management Board and the CEO to submit documents related to the activity of Company; (viii) right to make proposals for the reorganization terms; (ix) right to initiate the conveyance of the General Meeting; (x) right to supplement the agenda of the General Meeting; and (xi) a member of Supervisory Board has the right attend and speak at the General Meeting.

A decision to remove a member of the Management Board from office may be taken if at least 2/3 of the Supervisory Board members present at the meeting, including any who have voted in advance, vote for it.

As at the date of this report, the Supervisory Board is composed of six members. The Company expects that additional member of the Supervisory Board will be elected during the Annual General Meeting. It is expected that additional member of the Supervisory Board shall meet criteria of being independent.

6.3.3. Committees

In order to properly implement its supervisory function, the Supervisory Board has the right to form its committees. The audit committee is formed from among the members of the Supervisory Board. The audit committee shall consist of three members, of the Supervisory Board As of 6th June 2017 Mr Victor Kolotievskiy, Mr Vasily Kulikov and Mr Danielis Kličmanas were elected as members of audit committee of the Company. Mr. Danielis Klicmanas is the Chairman of the committee.

The Audit committee's term of office shall be the same as the Supervisory Board. Any decisions made by the audit committee shall be only of an advisory nature to the Supervisory Board. The main tasks of the Audit committee shall include, among others, the monitoring of the Company's financial information integrity, the external auditor's independence and objectivity, as well as the effectiveness of the external audit process, the review of internal control and risk management systems.

(all amounts are in EUR thousand unless otherwise stated)

6.3.4. Description of the basic features of the Company's internal control and risk management systems related to the process of preparing financial statements

The Company's system of internal control and risk management in the process of drawing up financial statements is implemented through:

- the audit of the annual financial statements of the Company and the Group companies;

- verification whether a single accounting policy is applied by the Company's Group companies as regards the recognition, measurement and disclosures in accordance with the International Financial Reporting Standards as adopted by EU (IFRS);

- following accounting standards and monitoring compliance with them.

The Company maintains its financial statements in accordance with the IFRS as adopted by the European Union and set by International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), and as applicable in the respective years.

The Company has certain procedures to authorise the financial statements under which the periodical annual reports are submitted to the Management Board for an approval and after the approval disclosed in public. Subsequently, the financial statements are forwarded to the Supervisory Board for their opinion. The Annual General Meeting receives annual financial statements and the annual report, together with comments and proposals of the Supervisory Board, and adopts a decision to approve the audited annual financial statements. Before the publication, the financial statements are treated as confidential information of the Company and provided solely to persons involved in the preparation, verification and approval process which are bind under the confidentiality undertakings.

6.3.5. Publicly announced information

During the period from the start of 2018 to 31st December 2018 Company publicly announced and broadcasted through Warsaw Stock Exchange information system and on own webpage the following information:

Title	Category of announcement	Language	Date
AB INTER RAO Lietuva announces about partial repayment of loan amount to its major shareholder before the repayment date	Notification on material event	EN, LT	14-Feb-2018
Publication date of the results for the 4th quarter of 2017 and the Annual Information for 2017 of AB INTER RAO Lietuva	Investor news	EN, LT	21-Feb-2018
Announcement of the results for the 4th quarter of 2017 and the Annual Information for 2017 of AB INTER RAO Lietuva	Annual information	EN, LT	23-Feb-2018
Statement on corporate governance	Investor news	EN, LT	06-Mar-2018
AB INTER RAO Lietuva decisions of the Management Board	Notification on material event	EN, LT	27-Mar-2018
AB INTER RAO Lietuva announces about full repayment of loans' amounts to its major shareholders before the repayment date	Notification on material event	EN, LT	28-Mar-2018

(all amounts are in EUR thousand unless otherwise stated)

AB „INTER RAO Lietuva" announces about the Management Board decision to approve financing received from OP Corporate Bank plc Lithuania Branch	Notification on material event	EN, LT	28-Mar-2018
AB INTER RAO Lietuva decisions of the Supervisory Board	Notification on material event	EN, LT	30-Mar-2018
Notice on convocation of the Annual General Meeting of Shareholders	Notification on material event	EN, LT	05-Apr-2018
The decisions adopted by the Annual General Meeting of Shareholders of AB INTER RAO Lietuva	Notification on material event	EN, LT	27-Apr-2018
Notice on the procedure for the payment of dividends	Notification on material event	EN, LT	07-May-2018
Publication date of the results for the 1st quarter of 2018 of AB INTER RAO Lietuva	Investor news	EN, LT	09-May-2018
Announcement of the results for the 1st quarter of the year 2018 of AB INTER RAO Lietuva	Interim information	EN, LT	11-May-2018
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	14-Jun-2018
AB INTER RAO Lietuva decisions of the Supervisory Council	Notification on material event	EN, LT	28-Jun-2018
AB INTER RAO Lietuva decisions of the Management Board	Notification on material event	EN, LT	09-Jul-2018
AB INTER RAO Lietuva announces about the resignation of a member of the Supervisory Council	Notification on material event	EN, LT	13-Jul-2018
AB INTER RAO Lietuva decisions of the Supervisory Council	Notification on material event	EN, LT	16-Jul-2018
Publication date of the results for the for the 6 month period ended 30 June 2018	Investor news	EN, LT	29-Aug-2018
Announcement of the results for the 6 month period ended 30 June 2018 of AB INTER RAO Lietuva	Interim information	EN, LT	31-Aug-2018
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	17-Sep-2018
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	18-Sep-2018

(all amounts are in EUR thousand unless otherwise stated)

Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	19-Sep-2018
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	20-Sep-2018
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	21-Sep-2018
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	24-Sep-2018
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	25-Sep-2018
AB INTER RAO Lietuva announces about the decision to liquidate company's subsidiary UAB "Alproka"	Notification on material event	EN, LT	06-Nov-2018
Publication date of the results for the 3rd quarter of 2018	Investor news	EN, LT	07-Nov-2018
Announcement of the results for the 3rd quarter of the year 2018 of AB INTER RAO Lietuva	Interim information	EN, LT	09-Nov-2018

Contents of above mentioned announcements can be obtained on Company's webpage http://www.interrao.lt/eng/For-Investors2/Reports/Current-Reports/2018.

VII. Confirmation of Responsible Persons

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, I, Giedrius Balčiūnas, General Director of AB INTER RAO Lietuva hereby confirm that, to the best of my knowledge, AB INTER RAO Lietuva Financial Statements as of and for the year ended 31 December 2018 as set out on above are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit or loss and cash flows of the Company and the Group. The consolidated Annual Report of the Company includes a fair review of the development and performance of the business and the position of the Company and the Group in relation to the description of the main risks and contingencies faced thereby.

Giedrius Balčiūnas

General Director